

**GALVESTON COUNTY  
DRAINAGE DISTRICT #2**

**GALVESTON COUNTY, TEXAS**

**FINANCIAL REPORT**

**For the Year Ended September 30, 2019**



**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**TABLE OF CONTENTS**

	<u>Schedule</u>	<u>Page</u>
<b>Annual Filing Affidavit</b>		i
<b>Independent Auditors' Report</b>		1
<b>Management's Discussion and Analysis</b>		5
<b>Basic Financial Statements</b>		
Statement of Net Position and Governmental Funds Balance Sheet		13
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance		14
Notes to Basic Financial Statements		15
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule - General Fund		34
Notes to Required Supplementary Information		35
Schedule of Changes in Net Pension Liability and Related Ratios		36
Schedule of Employer Pension Contributions		37
<b>Texas Supplementary Information</b>		
Services and Rates	TSI - 1	41
General Fund Expenditures	TSI - 2	42
Taxes Levied and Receivable	TSI - 4	43
Comparative Schedule of Revenues and Expenditures - General Fund	TSI - 7a	44
Board Members, Key Personnel and Consultants	TSI - 8	46



**ANNUAL FILING AFFIDAVIT**

**THE STATE OF TEXAS**

**GALVESTON COUNTY**

I, \_\_\_\_\_, of the Galveston County Drainage District No. 2  
(Name of Duly Authorized District Representative)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Commissioners of the District on the \_\_\_\_\_ day of February, 2020, its annual audit report for the fiscal year or period ended September 30, 2019, and that copies of the annual audit report have been filed in the District's office, located at 5000 F.M. 1765, La Marque, Texas. This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_, 2020

By: \_\_\_\_\_  
(Signature of District Representative)

\_\_\_\_\_  
(Typed Name & Title of Above District Representative)

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

\_\_\_\_\_  
(Signature of Notary)

(Seal)

My Commission Expires On: \_\_\_\_\_, \_\_\_\_\_, Notary Public in the State of Texas.

Form TCEQ – 0723 (Revised 10/2003)



## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Galveston County Drainage District #2  
La Marque, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Drainage District #2 ("the District") as of and for the year September 30, 2019 and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District as of September 30, 2019, and the respective changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10, budgetary comparison schedule on pages 34-35, and the required pension system supplementary information on pages 36-37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 Texas Supplementary Information and other supplementary information, as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Whitley Penn LLP*

Houston, Texas  
February 12, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **GALVESTON COUNTY DRAINAGE DISTRICT #2**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Using this Annual Report**

Within this section of the financial report of Galveston County Drainage District #2 (the "District"), the District's Board of Commissioners provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

The annual report consists of the Management's Discussion and Analysis, the basic financial statements, and required supplementary information, consisting of the Budgetary Comparison Schedule – General Fund. Additionally, the annual report includes other supplementary information as required by its State oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,736,435. Of this amount, \$1,983,208 was net investment in capital assets, which represents the carrying value of the capital assets. The remaining amount is comprised of restricted net position in the amount of \$991,326 and unrestricted net position in the amount of \$761,901.
- The District's total net position decreased by \$5,989 during the current fiscal year due to normal operations.
- The District's governmental funds reported combined ending fund balances of \$1,761,736 as of September 30, 2019. Of this amount, \$991,326 is restricted for the special revenue funds and \$770,410 is classified as unassigned in the general fund.

#### **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 information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference of the four 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*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes).

#### **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 local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements established by external parties, governmental statutes or regulations. All of the District's funds are governmental funds.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**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 evaluating a District'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 District'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 *governmental funds* and *governmental activities*.

The District has two individual governmental funds, the general fund and special revenue fund, both of which are considered major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the Financial Statements**

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

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund. The Required Supplementary Information also includes information related to the required pension system information and the required other post-employment benefit system information.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents Texas supplementary information immediately following the required supplementary information

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,736,435 at the close of the most recent fiscal year.

A significant portion of the District's net position reflects its investment in capital assets (e.g., land and easements, buildings, machinery and equipment, vehicles). The District uses these capital assets to provide services to citizens within the District; consequently, these assets are not available for future spending.

The District's overall financial position and operations for the past two years is summarized in the statement of net position as follows, based on information included in the government-wide financial statements:

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 1,985,547	\$ 1,750,466
Capital assets	<u>1,983,208</u>	<u>2,075,818</u>
Total Assets	<u>3,968,755</u>	<u>3,826,284</u>
Deferred outflows of resources	<u>372,809</u>	<u>80,695</u>
Total Deferred Outflows of Resources	<u>372,809</u>	<u>80,695</u>
Current and other liabilities	39,745	43,302
Long-term liabilities	<u>553,392</u>	<u>88,721</u>
Total Liabilities	<u>593,137</u>	<u>132,023</u>
Deferred inflows of resources	<u>11,992</u>	<u>32,532</u>
Total Deferred Inflows of Resources	<u>11,992</u>	<u>32,532</u>
<b>Net Position</b>		
Investment in capital assets	1,983,208	2,075,818
Restricted - special revenue funds	991,326	864,525
Unrestricted	<u>761,901</u>	<u>802,081</u>
Total Net Position	<u>\$ 3,736,435</u>	<u>\$ 3,742,424</u>

The remaining balance of net position in the governmental activities consists of an unrestricted net position of \$761,901, which may be used to meet the District's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the District also reports restricted net position in the governmental activities in the amount of \$991,326. This amount is restricted to ditch 6, ditch 8, and ditch 9.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The District's statement of activities for the past two years is summarized as follows, based on information included in the government-wide financial statements:

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Property taxes	\$ 914,918	\$ 929,031
Penalties and interest	15,076	16,709
Impact fees	126,801	60,383
Miscellaneous	5,185	815,000
Total Revenues	<u>1,061,980</u>	<u>1,821,123</u>
<b>Expenses</b>		
<b>Service Operations:</b>		
Personnel	740,064	789,812
Professional fees	49,287	45,678
Contracted services	30,475	42,633
Repairs and maintenance	54,532	52,686
Administrative expenditures	37,453	45,110
Commissioner Fees	28,050	24,450
Depreciation	128,108	120,735
Total Expenses	<u>1,067,969</u>	<u>1,121,104</u>
Excess (deficiency) before sale of capital assets	(5,989)	700,019
Sale of capital assets	-	10,478
Change in net position	<u>(5,989)</u>	<u>710,497</u>
Net position, beginning of year	<u>3,742,424</u>	<u>3,031,927</u>
Net position, end of year	<u>\$ 3,736,435</u>	<u>\$ 3,742,424</u>

**Governmental Activities**

Governmental activities decreased the District's net position by \$5,989. Revenues are generated primarily from two sources. Property taxes and impact fees represent 99.5 percent of total revenues. The remaining 0.5 percent is generated from miscellaneous revenues.

	<u>Total Revenues</u>	<u>% of Total Revenues</u>
Property taxes	\$ 929,994	87.6%
Impact fees	126,801	11.9%
Other revenue	5,185	0.5%
Total Revenues	<u>\$ 1,061,980</u>	<u>100.0%</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The primary expenses of the District is personnel, which represents 69.3 percent of total expenses. The remaining expenses include professional fees, contracted services, repairs and maintenance, administrative costs, commissioner fees, and depreciation, which represent 30.7 percent of the District's total expenses.

	<u>Total Expenses</u>	<u>% of Total Expenses</u>
Personnel	\$ 740,064	69.3%
Other Expenses	327,905	30.7%
Total Expenses	<u>\$ 1,067,969</u>	<u>100.0%</u>

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

As noted earlier, the District's general fund is a governmental funds. The focus of the District's governmental fund 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 a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance of the general fund was \$770,410, an increase of \$113,973 in comparison with the prior year. This amount represents unassigned fund balance, which is available for spending at the District's discretion. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 94 percent of expenditures.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget of the general fund are summarized as follows:

	<u>Budget</u>	
	<u>Original</u>	<u>Final Amended</u>
Total revenues	\$ 891,283	\$ 891,283
Total expenditures	2,291,283	2,291,283
Net change in fund balance	<u>\$ (1,400,000)</u>	<u>\$ (1,400,000)</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Capital Asset and Debt Administration**

**Capital Assets**

The District's investment in capital assets for its governmental activities as of September 30, 2019, includes land and easements, buildings, machinery and equipment, and vehicles. The following table summarizes the investment in capital assets as of the current and prior fiscal years.

	<u>2019</u>	<u>2018</u>
Land and Easements	\$ 407,620	\$ 407,620
Building and improvements	158,027	164,045
Land improvements	316,802	310,412
Furniture and equipment	995,820	1,077,758
Vehicles	<u>104,939</u>	<u>115,983</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,983,208</u>	<u>\$ 2,075,818</u>

The investment in capital assets (capital outlays) during the current year amounted to \$35,498. Additional information on the District's capital assets can be found in the notes to the financial statements.

**Debt**

As of September 30, 2019, the District did not have long-term debt outstanding.

**Economic Factors and Next Year's Budget and Rates**

**Property Taxes**

- The Districts tax base increased approximately \$138,802 during the 2019 tax year (2020 fiscal year) from \$891,283 to \$1,030,085.
- For the 2020 fiscal year, the District budget increased expenditures by \$238,802 over the previous year's final budget. The budget increase was primarily due to capital projects and personnel expenditures.
- The Districts tax rate for the 2019 tax year (2020 fiscal year) is \$0.055231, a decrease of \$0.001169 compared to the prior fiscal year.

**Request for Information**

This financial report is designed to provide 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 financial information should be addressed to the Bookkeeper, P.O. Box 624, La Marque, Texas 77568-0624.

## **BASIC FINANCIAL STATEMENTS**

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**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
*As of September 30, 2019*

	<u>Governmental Fund Financial Statements</u>				<u>Government-wide</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 790,749	\$ 1,010,732	\$ 1,801,481	\$ -	\$ 1,801,481
Taxes receivable, net	184,066	-	184,066	-	184,066
Due from other funds	19,406	-	19,406	(19,406)	-
Capital assets:					
Land and easements	-	-	-	407,620	407,620
Other depreciable assets, net	-	-	-	1,575,588	1,575,588
Total Assets	<u>994,221</u>	<u>1,010,732</u>	<u>2,004,953</u>	<u>1,963,802</u>	<u>3,968,755</u>
<b>Deferred Outflows of Resources</b>					
Deferred outflows - pension	-	-	-	372,809	372,809
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>372,809</u>	<u>372,809</u>
<b>Liabilities:</b>					
Accounts payable	24,185	-	24,185	-	24,185
Accrued wages payable	15,560	-	15,560	-	15,560
Due to other funds	-	19,406	19,406	(19,406)	-
Long-term liabilities					
Net pension liability	-	-	-	553,392	553,392
Total Liabilities	<u>39,745</u>	<u>19,406</u>	<u>59,151</u>	<u>533,986</u>	<u>593,137</u>
<b>Deferred Inflows of Resources</b>					
Deferred inflows - property taxes	184,066	-	184,066	(184,066)	-
Deferred inflows - pension	-	-	-	11,992	11,992
Total Deferred Inflows of Resources	<u>184,066</u>	<u>-</u>	<u>184,066</u>	<u>(172,074)</u>	<u>11,992</u>
<b>Fund balances/Net Position:</b>					
Fund Balances:					
Restricted	-	991,326	991,326		
Unassigned	<u>770,410</u>	<u>-</u>	<u>770,410</u>		
Total Fund Balances	<u>770,410</u>	<u>991,326</u>	<u>1,761,736</u>		
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 994,221</u>	<u>\$ 1,010,732</u>	<u>\$ 2,004,953</u>		
Net position					
Investment in capital assets				1,983,208	1,983,208
Restricted - special revenue funds				991,326	991,326
Unrestricted				761,901	761,901
Total Net Position				<u>\$ 3,736,435</u>	<u>\$ 3,736,435</u>

See notes to financial statements.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2019**

	Governmental Fund Financial Statements				Government-wide
	General Fund	Special Revenue Funds	Total	Adjustments	Statement of Activities
<b>Revenues</b>					
Property taxes	\$ 917,054	\$ -	\$ 917,054	\$ (2,136)	\$ 914,918
Penalties and interest	15,076	-	15,076	-	15,076
Impact fees	-	126,801	126,801	-	126,801
Miscellaneous	5,185	-	5,185	-	5,185
Total Revenues	<u>937,315</u>	<u>126,801</u>	<u>1,064,116</u>	<u>(2,136)</u>	<u>1,061,980</u>
<b>Expenditures/Expenses</b>					
<b>Service operations:</b>					
Personnel	588,047	-	588,047	152,017	740,064
Professional fees	49,287	-	49,287	-	49,287
Contracted services	30,475	-	30,475	-	30,475
Repairs and maintenance	54,532	-	54,532	-	54,532
Administrative expenditures	37,453	-	37,453	-	37,453
Commissioner Fees	28,050	-	28,050	-	28,050
<b>Capital outlay</b>	35,498	-	35,498	(35,498)	-
Depreciation	-	-	-	128,108	128,108
Total Expenditures/Expenses	<u>823,342</u>	<u>-</u>	<u>823,342</u>	<u>244,627</u>	<u>1,067,969</u>
Excess (deficiency) of revenues over expenditures	113,973	126,801	240,774	(246,763)	(5,989)
<b>Fund Balance / Net Position:</b>					
Beginning of the year	<u>656,437</u>	<u>864,525</u>	<u>1,520,962</u>	<u>2,221,462</u>	<u>3,742,424</u>
End of the year	<u>\$ 770,410</u>	<u>\$ 991,326</u>	<u>\$1,761,736</u>	<u>\$ 1,974,699</u>	<u>\$ 3,736,435</u>

See notes to financial statements.

## **GALVESTON COUNTY DRAINAGE DISTRICT #2**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

#### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the District conform to accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

##### **Creation**

The Galveston County Drainage District No. 2 was created by a vote of the people in 1911 under the district provisions of Section 59 of Articles XVI of the Texas Constitution for the sole purpose of reclamation and drainage of its overflowed lands needing drainage and vested with all the rights, powers, privileges, and duties conferred and imposed by the general laws of the State of Texas. The District is also subject to the continuing supervision of the Texas Commission on Environmental Quality. The District's primary activity is the control of flooding within its boundaries. As such, the District works in conjunction with local, state, federal and other county agencies to maintain existing flood control systems, construct additions and modifications and review additions and modifications proposed by others.

##### **Reporting Entity**

The District is a political subdivision of the State of Texas governed by an elected three-member board. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions, as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Consideration regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity is based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and, it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable; and, considerations pertaining to other organizations 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.

##### **Government-Wide and Fund Financial Statements**

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the district as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing a final column for reconciling items between the two. All funds are considered major funds under financial reporting guidelines.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

Fund financial statements display information at the individual fund level. A fund is considered to be a separate accounting entity. The District reports one individual fund, the General Fund, which is used to account for the operations of the District's drainage system and all other financial transactions not properly includable in other funds.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Governmental fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. They use the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Property tax revenues are generally recognized in the period in which they were collected. Property taxes receivable at the end of the fiscal year are treated as unavailable revenues because they are not considered available to pay liabilities of the current period. The District levies taxes for operating purposes only. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

**Implementation of New Standards**

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The District has determined that this statement has no impact on fiscal year 2019 operations.

GASB Statement No. 88, *Certain Disclosures Related to Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The District had no direct borrowings or direct placements that qualified for recognition under this statement.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Deposits and Investments**

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 date of acquisition. Investments for the District are reported at fair value.

The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. The depository cash balances were covered by FDIC insurance and by collateral held by the District's agent in the District's name.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: 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. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

The District did not have any investments as of September 30, 2019.

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Allowances for uncollectible taxes receivable are \$5,696 as of September 30, 2019.

**Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The District did not have any prepaid items as of September 30, 2019.

**Capital Assets**

Capital assets, which include land, buildings and improvements, tools and heavy equipment, are reported in the government-wide financial statements. The district defines capital assets as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

Capital assets are depreciated using the straight line method over their remaining useful lives as follows:

<u>Assets</u>	<u>Useful Life</u>
Building and improvements	50 years
Land improvements	50 years
Tools and equipment	10 years
Heavy equipment	20 years

**Net Position**

Net position represents the differences between assets, deferred outflows, liabilities, and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings, used for the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on its use through external grantors, laws, or regulations of other governments.

**Fund Balance**

In the fund financial statements, governmental funds report classifications of fund balance based on controls placed upon the funds. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, effective June 30, 2011, fund balance classifications are recorded as follows:

*Nonspendable fund balance* – amounts that are not in spendable form or are required to be maintained intact. As such, inventory and prepaid items, if applicable, are properly classified in the Governmental Funds Balance Sheet.

*Restricted fund balance* – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

*Committed fund balance* – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Commissioners). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint.

*Assigned fund balance* – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Commissioners delegate the authority.

*Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance, and lastly, the unassigned fund balance. The District has restricted and unassigned fund balances as of September 30, 2019.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Compensated Absences**

District employees are paid by a prescribed formula for absences due to vacation. After one year of employment, vacation leave is earned as follows:

1 year of service	1 week
2-5 years of service	2 weeks
6-10 years of service	3 weeks
11-20 years of service	4 weeks
21 and over	5 weeks

Unless approved by the Board, the eligibility for such benefits lapses at year end, and pay in lieu of vacation is not given except in the case of termination. Accordingly, accumulated unpaid vacation pay is expensed in governmental funds when paid. At September 30, 2019, there were no material accumulated unpaid vacation benefits.

**Sick Leave**

Employees in permanent positions will be eligible for sick leave with full pay on the basis of one working day for each month of service subject to the following conditions:

- (a) Sick leave is not to be taken until the initial six months of service has been completed, but the sick leave balance at the end of the six months initial period will show credit retroactive to the date of original employment (six days of leave available).
- (b) Sick leave may be accumulated for a total of not more than ninety working days.

**Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Restricted Assets**

Assets held in the special revenue funds are classified as restricted assets.

Impact fees represent monies which are received from developers wanting to develop property in a particular watershed area. These monies represent additional costs which will be incurred as a direct result of developing the area. These monies are restricted for use only for the purpose for which they are collected. Costs are incurred and paid out of the general fund. Once the costs have been incurred, the special revenue fund is entitled to reimburse the general fund by transferring amounts to the general fund.

For the year ended, September 30, 2019, no costs were incurred as a direct result of development in the area.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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. Bond premiums and discounts, are recorded as liabilities and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The District did not have any debt outstanding as of September 30, 2019.

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

**Deferred Outflows/Inflows of Resources**

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension - One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, and will be recognized as a reduction of the net pension liability in the next fiscal year. The other portion of the deferred outflow relating to pension is a combination of differences arising from changes in assumptions and differences between expected and actual actuarial experience. These amounts will be recognized over the average remaining service life for all active, inactive, and retired members, which is currently six years.

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension - This deferred inflow results from the differences between expected and actual actuarial experiences and will be recognized over the average remaining service life for all active, inactive, and retired members, which is currently five years.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefits payments are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

**Note 2 - Adjustment from Governmental to Government-Wide Basis**

**Reconciliation of the Government Fund Balance Sheet to the Statement of Net Position**

Total fund balances, governmental funds	\$ 1,761,736
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	1,983,208
Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	184,066
Deferred inflows and outflows related to pension activities	360,817
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Net pension liability	<u>(553,392)</u>
<b>Total net position - governmental activities</b>	<b><u>\$ 3,736,435</u></b>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**

**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 2 - Adjustment from Governmental to Government-Wide Basis (continued)**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the  
Governmental Funds to the Statement of Activities**

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Net change in fund balances - total governmental funds	\$ 240,774
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capitalized expenditures reclassified to assets.	35,498
Depreciation expense taken to Statement of Activities.	(128,108)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(2,136)
Pension contributions made during the current fiscal year are reported as expenditures in the governmental funds and are reported as deferred outflows and reductions in net pension liability as opposed to expenses in the statement of activity.	62,145
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Pension expense for the plan measurement year	<u>(214,162)</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ (5,989)</u></b>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 3 - Cash and Investments**

At September 30, 2019, cash and temporary investments consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Totals</u>
<b>Cash and cash equivalents</b>			
Petty cash	\$ 100	\$ -	\$ 100
Checking accounts	5,266	1,010,732	1,015,998
Money market account	785,383	-	785,383
Total cash and cash equivalents	<u>\$ 790,749</u>	<u>\$ 1,010,732</u>	<u>\$ 1,801,481</u>

**Cash Deposits**

In the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. At September 30, 2019, the District's cash in bank totaled \$1,811,995 while the carrying value was \$1,801,481. Pledged collateral and FDIC insurance for these deposits totaled \$2,086,656.

**Investments**

The District is authorized by state statutes to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, commercial paper, repurchase agreements, or investment pools.

For fiscal year 2019, the District did not own any investments.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**

*NOTES TO BASIC FINANCIAL STATEMENTS (continued)*

**Note 4 - Property Taxes**

The District’s property taxes are levied annually in October on the basis of the Galveston Central Appraisal District’s assessed values as of January 1 of that calendar year. Appraised values are established by the Appraisal District at market value. The District’s property tax calendar is as follows:

**Property Tax Calendar**

October	Taxes are levied and are due upon receipt of the tax bill.
January 1	Tax lien attaches to properties within District.
February 1	Penalty and interest charged if taxes are not paid.

Property taxes are collected based on rates adopted in the year of the levy. For the current year, the District levied property taxes of \$0.05640 per \$100 of assessed value, which was allocated to maintenance and operations. The resulting tax levy was \$919,172 on the adjusted taxable value of \$1,629,737,979 for the 2018 tax year.

Net property taxes receivable, at September 30, 2019, includes penalty and interest receivable on delinquent accounts and an estimated allowance for uncollectible accounts as follows:

Current year taxes receivable	\$ 26,096
Prior years taxes receivable	80,891
Penalty and interest receivable	82,775
Total taxes receivable	<u>189,762</u>
Less allowance for uncollectibles	(5,696)
Net property taxes receivable	<u><u>\$ 184,066</u></u>

**Note 5 - Interfund Receivables and Payables**

Interfund balances consist of short term lending/borrowing arrangements that result primarily from payroll and fuel charges that are paid by general fund related to ditch improvement and are charged back to appropriate other fund.

<b>Payable Fund</b>	<b>Receivable Fund</b>	
	<b>General Fund</b>	<b>Totals</b>
<b>Governmental funds</b>		
Special revenue Funds	\$ 19,406	\$ 19,406
Total governmental funds	<u>\$ 19,406</u>	<u>\$ 19,406</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 6 - Capital Assets**

Capital assets, which include land, buildings and equipment, are reported in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives.

A summary of changes in capital assets, for the year ended September 30, 2019, follows:

	<u>October 01, 2018</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>September 30, 2019</u>
Capital assets, not being depreciated:				
Land and Easments	\$ 407,620	\$ -	\$ -	\$ 407,620
Total capital assets, not being depreciated	<u>407,620</u>	<u>-</u>	<u>-</u>	<u>407,620</u>
Capital assets, being depreciated:				
Building and improvements	251,994	-	-	251,994
Land improvements	316,800	12,873	-	329,673
Furniture and equipment	1,583,706	20,991	-	1,604,697
Vehicles	157,464	1,634	-	159,098
Total capital assets, being depreciated	<u>2,309,964</u>	<u>35,498</u>	<u>-</u>	<u>2,345,462</u>
Less accumulated depreciation for:				
Building and improvements	(87,949)	(6,018)	-	(93,967)
Land improvements	(6,388)	(6,483)	-	(12,871)
Furniture and equipment	(505,948)	(102,929)	-	(608,877)
Vehicles	(41,481)	(12,678)	-	(54,159)
Total accumulated depreciation	<u>(641,766)</u>	<u>(128,108)</u>	<u>-</u>	<u>(769,874)</u>
Total capital assets being depreciated, net	<u>1,668,198</u>	<u>(92,610)</u>	<u>-</u>	<u>1,575,588</u>
Governmental activities capital assets, net	<u>\$ 2,075,818</u>	<u>\$ (92,610)</u>	<u>\$ -</u>	<u>\$ 1,983,208</u>

Depreciation expense amounted to \$128,108 in the current fiscal year.

**Note 7 - Defined Benefit Pension Plan**

The District provides retirement, disability and death benefits for all of its full-time employees through a non-traditional defined benefit plan in the state-wide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 677 nontraditional defined benefit pension plans. TCDRS issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available, upon written request, from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas, 78768-2034 or online at [www.tcdrs.org](http://www.tcdrs.org).

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at age 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 to the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

## **GALVESTON COUNTY DRAINAGE DISTRICT #2**

### **NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 7 - Defined Benefit Pension Plan (continued)**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitments to contribute. At retirement, disability 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, as prescribed by the TCDRS Act.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Number of inactive employees entitled to but not yet receiving benefits	2
Number of active employees	9
Number of inactive employees receiving benefits	7

#### **Funding Policy/Contributions**

The employer has chosen a variable rate plan under the 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 was 8.67% and the contribution rate for employees was 7%, as adopted by the governing body of the employer. The contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer with options available in the TCDRS ACT.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

#### **Net Pension Liability**

The District's Net Pension Liability ("NPL") was measured as of December 31, 2018, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Defined Benefit Pension Plan (continued)**

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Real rate of return	5.25%
Inflation	2.75%
Long-term investment return	8.00%
Growth in membership	0.00%
Payroll growth	0.00%

Valuation date	December 31, 2018
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18.4 years
Asset valuation method	5-year smoothed market
Inflation rate	2.75%
Salary increases	Varies by age and service; 4.9% average over career including inflation.
Investment rate of return	8.0%
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality rate	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68.

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 pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Defined Benefit Pension Plan (continued)**

**Actuarial Assumptions (continued)**

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

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

**Changes in Actuarial Valuation**

Legislation effective in 2017 changed the fund structure for TCDRS. Previously, when a member retired, assets were transferred to a system-wide fund (the Current Service Annuity Reserve Fund or CSARF) and the associated benefit was paid from the CSARF. Effective January 1, 2017, benefits that were previously paid from the CSARF will now be paid by the retiree's former employer. CSARF assets have been allocated back to the employer in proportion to their share of the liabilities. For valuation purposes, this allocation is treated as having occurred on December 31, 2016.

The asset smoothing method was modified to provide more stable year-to-year changes. The recognition period remains five years.

The treatment of extra contributions due to employer lump sums or elected rates was changed to provide more immediate impact on employer liabilities, resulting in a greater reduction in the required contribution rate.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Defined Benefit Pension Plan (continued)**

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 8.10%. 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.

	<b>Total Pension Liability</b>	<b>Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
<b>Balances as of December 31, 2017</b>	\$ 4,843,259	\$ 4,754,538	\$ 88,721
Changes for the Year			
Service cost	75,928	-	75,928
Interest on total pension liability	369,682	-	369,682
Effect of economic/demographic gains or losses	4,797	-	4,797
Benefit payments	(724,535)	(724,535)	-
Administrative expenses	-	(3,225)	3,225
Member contributions	-	35,483	(35,483)
Net investment income	-	(95,523)	95,523
Employer contributions	-	67,054	(67,054)
Other	-	(18,053)	18,053
<b>Balances as of December 31, 2018</b>	<u>\$ 4,569,131</u>	<u>\$ 4,015,739</u>	<u>\$ 553,392</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, 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 (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

	<b>1% Decrease 7.10%</b>	<b>Discount Rate 8.10%</b>	<b>1% Increase 9.10%</b>
Total pension liability	\$ 5,179,096	\$ 4,569,131	\$ 4,052,985
Fiduciary net position	4,015,739	4,015,739	4,015,739
Net pension liability	<u>\$ 1,163,357</u>	<u>\$ 553,392</u>	<u>\$ 37,246</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Defined Benefit Pension Plan (continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2019, the District recognized pension expense of \$214,162.

As of September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 10,016	\$ (11,992)
Changes of assumptions	17,460	-
Net difference between projected and actual earnings	299,652	-
Contributions made subsequent to measurement date	45,681	-
	<u>\$ 372,809</u>	<u>\$ (11,992)</u>

The \$45,681 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020.

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

<u>Year ended September 30:</u>	<u>Amount</u>
2020	\$ 130,891
2021	46,809
2022	40,558
2023	94,722
2024	2,156
	<u>\$ 315,136</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**Note 8 - Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by participation in Texas Municipal League (TML), an intergovernmental risk pool. This pool is a risk-sharing pool providing insurance coverage to more than 2,800 Texas municipalities and other governmental units. The risk pool is governed by a board of trustees that consists of 15 members, plus 3 ex-officio non-voting members, either elected or appointed in the manner specified by the TML bylaws. Each member of the board must be either an employee or official of the governing body of an employee member of the pool. The board controls the operations of the risk pool and has various powers and duties as specified in the bylaws. Audited financial information for each risk pool may be obtained from the Chief Financial Officer, Texas Municipal League Intergovernmental Risk Pool, PO Box 149194, Austin, TX 78714-9194. The District has not had any significant reductions in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years.

During the current fiscal year, the District paid out of its general fund net premiums of approximately \$16,560 for provisions of various liability, property, and casualty insurance. The District has deductibles ranging from \$500 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductibles in accordance with approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the District. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, the District did not have any significant probable claims.

The District also provides workers compensation insurance on its employees through TML. This policy covers claims up to the statutory limit. The District has no deductible for these claims. During the current fiscal year, the District contributed out of its general fund premiums of approximately \$11,571 for this coverage. The contributed amount is based on the District's estimated payroll applied to a classification rate (determined by TML), multiplied by the District's experience modifier and fund discount. These premiums are subject to change upon audit by TML. As of the current year-end, the District believed the amounts paid would not change significantly from the amounts recorded.

Both group health and life insurance coverage for eligible employees of the District are covered through commercial insurance. The District does not retain any risk of loss on health or life insurance.

**Note 9 - Commitments and Contingencies**

In the opinion of management and legal counsel, there is no known litigation pending against the District as of September 30, 2019.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
*For the Year Ended September 30, 2019*

	<u>Budget</u>		<u>Actual</u> <u>Amounts</u>	<u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u> <u>Amended</u>		
<b>Revenues</b>				
Property taxes	\$ 891,283	\$ 891,283	\$ 917,054	\$ 25,771
Penalties and interest	-	-	15,076	15,076
Miscellaneous	-	-	5,185	5,185
Total Revenues	<u>891,283</u>	<u>891,283</u>	<u>937,315</u>	<u>46,032</u>
<b>Expenditures</b>				
<b>Service operations:</b>				
Personnel	696,904	696,904	588,047	108,857
Professional fees	121,000	121,000	49,287	71,713
Contracted services	67,400	67,400	30,475	36,925
Repairs and maintenance	103,000	103,000	54,532	48,468
Administrative expenditures	46,000	46,000	37,453	8,547
Commissioner Fees	30,000	30,000	28,050	1,950
<b>Capital outlay</b>	<u>1,226,979</u>	<u>1,226,979</u>	<u>35,498</u>	<u>1,191,481</u>
Total expenditures/expenses	<u>2,291,283</u>	<u>2,291,283</u>	<u>823,342</u>	<u>1,467,941</u>
Excess (deficiency) of revenues over expenditures	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>113,973</u>	<u>1,513,973</u>
<b>Fund Balance / Net Position:</b>				
Beginning of the year	<u>656,437</u>	<u>656,437</u>	<u>656,437</u>	<u>-</u>
End of the year	<u>\$ (743,563)</u>	<u>\$ (743,563)</u>	<u>\$ 770,410</u>	<u>\$ 1,513,973</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**

***NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***

*September 30, 2019*

**A. Legal Compliance - Budgets**

The Board of Commissioners annually adopts a budget for the general fund. At least ten days before the beginning of the fiscal year, the Board of Commissioners shall approve the budget plan. One or more public hearings are conducted to obtain taxpayer comments. The budget is legally enacted prior to October 1. All annual appropriations lapse at fiscal year-end.

The appropriated budget is prepared by function. Transfers of appropriations between functions require the approval of the Board of Commissioners.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF CHANGES IN NET PENSIONS LIABILITY AND RELATED RATIOS**  
**For the Last Five Measurement Years ended December 31,**  
**(Unaudited)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>					
Service cost	\$ 75,928	\$ 76,673	\$ 76,113	\$ 72,395	\$ 69,109
Interest on total pension liability	369,682	363,518	330,735	305,317	279,770
Effect of plan changes	-	-	-	(4,005)	-
Effect of assumption changes or inputs	-	3,532	-	21,473	-
Effect of economic/demographic (gains) or losses	4,797	11,560	4,108	(27,980)	4,582
Benefit payments/refunds of contributions	(724,535)	(45,575)	(45,575)	(47,705)	(48,769)
Net change in total pension liability	(274,128)	409,708	365,381	319,495	304,692
Total pension liability, beginning	<u>4,843,259</u>	<u>4,433,551</u>	<u>4,068,170</u>	<u>3,748,675</u>	<u>3,443,983</u>
Total pension liability, ending (a)	<u>\$ 4,569,131</u>	<u>\$ 4,843,259</u>	<u>\$ 4,433,551</u>	<u>\$ 4,068,170</u>	<u>\$ 3,748,675</u>
<b>Fiduciary Net Position</b>					
Employer contributions	\$ 67,054	\$ 54,934	\$ 44,452	\$ 44,976	\$ 45,063
Member contributions	35,483	35,343	33,487	31,963	30,566
Investment income net of investment expenses	(95,523)	600,864	281,084	(102,224)	239,879
Benefit payments/refunds of contributions	(724,535)	(45,575)	(45,575)	(47,705)	(48,769)
Administrative expenses	(3,225)	(3,162)	(3,055)	(2,765)	(2,892)
Other	(18,053)	570	34	(8,121)	2,464
Net change in fiduciary net position	(738,799)	642,974	310,427	(83,876)	266,311
Fiduciary net position, beginning	<u>4,754,538</u>	<u>4,111,564</u>	<u>3,801,137</u>	<u>3,885,012</u>	<u>3,618,701</u>
Fiduciary net position, ending (b)	<u>\$ 4,015,739</u>	<u>\$ 4,754,538</u>	<u>\$ 4,111,564</u>	<u>\$ 3,801,136</u>	<u>\$ 3,885,012</u>
Net pension liability, ending = (a) - (b)	<u>\$ 553,392</u>	<u>\$ 88,721</u>	<u>\$ 321,987</u>	<u>\$ 267,034</u>	<u>\$ (136,337)</u>
Fiduciary net position as a % of total pension liability	87.89%	98.17%	92.74%	93.44%	103.64%
Pensionable covered payroll	\$ 506,898	\$ 504,905	\$ 478,386	\$ 456,612	\$ 436,656
Net pension liability as a % of covered payroll	109.17%	17.57%	67.31%	58.48%	-31.22%

Note: GASB 68 requires ten years of data to be provided in this schedule, however, because this standard was implemented in 2014, only five years are currently available.

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**  
*For the Last Six Fiscal Years*  
*(Unaudited)*

<b>Year Ending September 30,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2014	\$ 50,852	\$ 50,852	\$ -	\$ 419,759	12.1%
2015	44,975	44,975	-	453,403	9.9%
2016	47,368	47,368	-	483,505	9.8%
2017	51,855	51,855	-	507,856	10.2%
2018	54,934	54,934	-	504,905	10.9%
2019	62,144	62,144	-	432,020	14.4%

**Actuarial Methods and Assumptions**

Valuation timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry Age Normal
Amortization method	Straight-Line amortization over Expected Working Life
Asset valuation method	5-year smoothed market
Inflation rate	2.75%
Salary increases	3.25%
Investment rate of return	8.10% (Gross of administrative expenses)
Cost-of-living Adjustments	Cost-of-Living Adjustments for Galveston County Drainage District #2 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality rate	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

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**TEXAS SUPPLEMENTARY INFORMATION**

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**GALVESTON COUNTY DRAINAGE DISTRICT #2**

**TSI-1. SERVICES AND RATES**

*September 30, 2019*

**1. Services provided by the District during the Fiscal Year:**

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

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**TSI-2 GENERAL FUND EXPENDITURES**  
*For the Fiscal Year Ended September 30, 2019*

<b>Personnel Expenditures</b> (including benefits)*	<u>\$ 588,047</u>
<b>Professional Fees:</b>	
Auditing	12,100
Legal	6,000
Engineering	31,187
	<u>49,287</u>
<b>Contracted Services:</b>	
Contract Labor	2,755
Equipment Rental	11,612
Outside Equipment Repair	6,029
Appraisal District	6,521
Tax Collector	3,558
	<u>30,475</u>
<b>Utilities</b>	<u>6,455</u>
<b>Repairs and Maintenance:</b>	
Operating Supplies	14,404
Chemicals	2,468
Fuel and Lube	16,815
Repair and Maintenance Material	20,845
	<u>54,532</u>
<b>Administrative Expenditures:</b>	
Commissioner Fees	28,050
Office Supplies	1,316
Insurance	16,560
Other Administrative Expenditures	13,122
	<u>59,048</u>
<b>Capital Outlay:</b>	
Acquisition of Capital Assets	35,498
	<u>35,498</u>
<b>Total Expenditures</b>	<u>\$ 823,342</u>

\* Number of persons employed by the District:    7 Full-Time    0 Part-Time

**GALVESTON COUNTY DRAINAGE DISTRICT #2**

**TSI-4. TAXES LEVIED AND RECEIVABLE**

*For the Fiscal Year Ended September 30, 2019*

	<u>Maintenance Taxes</u>
Taxes Receivable, Beginning of Year	\$ 106,149
2018 Original Tax Levy	887,408
Additions and corrections	<u>31,764</u>
Adjusted 2018 Tax Levy	<u>919,172</u>
Total to be Accounted for	<u>1,025,321</u>
<b>Tax collections:</b>	
Current year	893,076
Prior years	<u>25,258</u>
<b>Total Collections</b>	<u>918,334</u>
<b>Taxes Receivable, End of Year</b>	<u>\$ 106,987</u>
<b>Taxes Receivable, By Years</b>	
2015 and prior	\$ 47,660
2016	7,717
2017	11,052
2018	14,462
2019	<u>26,096</u>
Taxes Receivable, End of Year	<u>\$ 106,987</u>

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Property Valuations:</b>				
Land	\$ 383,423,768	\$ 370,579,510	\$ 324,138,458	\$ 318,263,498
Improvements	1,006,212,690	1,085,170,198	963,252,836	896,793,637
Personal Property	<u>240,101,521</u>	<u>200,723,585</u>	<u>199,229,172</u>	<u>206,527,166</u>
<b>Total Property Valuations</b>	<u>\$ 1,629,737,979</u>	<u>\$ 1,656,473,293</u>	<u>\$ 1,486,620,466</u>	<u>\$ 1,421,584,301</u>
Tax Rates per \$100 Valuation:				
Maintenance tax rates	<u>\$ 0.0564</u>	<u>\$ 0.0564</u>	<u>\$ 0.0630</u>	<u>\$ 0.0630</u>
Tax Levy:	<u>\$ 919,172</u>	<u>\$ 884,898</u>	<u>\$ 916,815</u>	<u>\$ 896,591</u>
Percentage of Taxes Collected to Taxes Levied	<u>97%</u>	<u>97%</u>	<u>97%</u>	<u>98%</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2****TSI-7a. COMPARATIVE SCHEDULE OF REVENUES AND****EXPENDITURES - GENERAL FUND***For the Five Years Ended September 30,*

	<b>Amounts</b>				
<b>General Fund</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Revenues:</b>					
Property taxes	\$ 917,054	\$ 935,511	\$ 950,516	\$ 929,799	\$ 893,704
Penalties and interest	15,076	16,709	14,562	13,058	14,615
Miscellaneous	5,185	815,000	2,131	-	376,000
Total Revenues	<u>937,315</u>	<u>1,767,220</u>	<u>967,209</u>	<u>942,857</u>	<u>1,284,319</u>
<b>Expenditures:</b>					
Personnel	588,047	732,742	660,493	624,806	591,236
Professional fees	49,287	45,678	86,998	35,974	35,937
Contracted services	30,475	42,633	34,823	37,285	25,513
Repairs and maintenance	54,532	52,686	41,762	42,746	45,367
Administrative expenditures	37,453	45,110	31,263	35,938	33,895
Commissioner Fees	28,050	24,450	21,600	21,780	21,780
Capital outlay	35,498	526,687	544,603	25,796	6,954
Total Expenditures	<u>823,342</u>	<u>1,469,986</u>	<u>1,421,542</u>	<u>824,325</u>	<u>760,682</u>
<b>Other Financing Sources</b>					
Proceeds - sale of capital assets	-	69,338	34,987	-	20,600
Total Other Financing Sources	<u>-</u>	<u>69,338</u>	<u>34,987</u>	<u>-</u>	<u>20,600</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 113,973</u>	<u>\$ 366,572</u>	<u>\$(419,346)</u>	<u>\$ 118,532</u>	<u>\$ 544,237</u>

**Percent of Total Fund Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
97.84%	52.94%	98.27%	98.62%	69.59%
1.61%	0.95%	1.51%	1.38%	1.14%
0.55%	46.12%	0.22%	0.00%	29.28%
<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
62.74%	41.46%	68.29%	66.27%	46.03%
5.26%	2.58%	8.99%	3.82%	2.80%
3.25%	2.41%	3.60%	3.95%	1.99%
5.82%	2.98%	4.32%	4.53%	3.53%
4.00%	2.55%	3.23%	3.81%	2.64%
2.99%	1.38%	2.23%	2.31%	1.70%
3.79%	29.80%	56.31%	2.74%	0.54%
<u>87.84%</u>	<u>83.18%</u>	<u>146.97%</u>	<u>87.43%</u>	<u>59.23%</u>
0.00%	3.92%	3.62%	0.00%	1.60%
0.00%	3.92%	3.62%	0.00%	1.60%
<u>12.16%</u>	<u>20.74%</u>	<u>-43.36%</u>	<u>12.57%</u>	<u>42.38%</u>

**GALVESTON COUNTY DRAINAGE DISTRICT #2**  
**TSL-8. BOARD MEMBERS, KEY PERSONNEL AND PROFESSIONAL SERVICES**  
*For the Fiscal Year Ending September 30, 2019*

Complete District Mailing Address: P O Box 624, La Marque, Texas, 77568-0624

District Business Telephone Number: 409-935-2041

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

(Set by Board Resolution - TWC Section 49.0600)

<u>Names:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>September 30, 2019</u>		<u>Title at Year End</u>
		<u>Fees of Office Paid *</u>	<u>Expense Reimbursements</u>	
<b>Board Members:</b>				
Michael Macik	Elected 05/18 - 05/22	\$ 7,200	\$ -	Chairman
Jack Ellison, Jr.	Elected 05/18 - 05/22	9,900	-	Vice Chairman
Bobby Harper	Elected 05/18 - 05/22	10,950	-	Secretary
<b>Key Administrative Personnel:</b>				
Roland Buchanan	1987	88,405	80	Manager
Teresa Moore	1995	70,887	407	Bookkeeper
<b>Professional Services:</b>				
Carlton A. Getty	N/A	6,000	-	Attorney
Whitley Penn, LLP	Annual	12,100	-	Auditor
Costello, Inc.	N/A	19,328	-	Engineer

\* *Fees of Office* are the amounts actually paid to a commissioner during the district's fiscal year.