

BACLIFF MUNICIPAL UTILITY DISTRICT
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bacliff Municipal Utility District
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Bacliff Municipal Utility District (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

March 12, 2018

**BACLIFF MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Management's discussion and analysis of Bacliff Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**BACLIFF MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13,800,290 as of December 31, 2017. A portion of the District's net position reflects its net investment in capital assets (land as well as buildings, vehicles, equipment and water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). A comparative analysis of government-wide changes in net position is presented below.

BACLIFF MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 5,396,184	\$ 5,408,972	\$ (12,788)
Capital Assets (Net of Accumulated Depreciation)	<u>23,225,173</u>	<u>23,511,528</u>	<u>(286,355)</u>
Total Assets	<u>\$ 28,621,357</u>	<u>\$ 28,920,500</u>	<u>\$ (299,143)</u>
Deferred Outflows of Resources	<u>\$ 266,492</u>	<u>\$ 254,587</u>	<u>\$ 11,905</u>
Bonds Payable	\$ 12,955,000	\$ 13,460,000	\$ 505,000
Other Liabilities	<u>1,098,760</u>	<u>1,130,825</u>	<u>32,065</u>
Total Liabilities	<u>\$ 14,053,760</u>	<u>\$ 14,590,825</u>	<u>\$ 537,065</u>
Deferred Inflows of Resources	<u>\$ 1,033,799</u>	<u>\$ 1,043,398</u>	<u>\$ 9,599</u>
Net Position:			
Net Investment in Capital Assets	\$ 11,389,050	\$ 11,367,561	\$ 21,489
Restricted	383,486	370,133	13,353
Unrestricted	<u>2,027,754</u>	<u>1,803,170</u>	<u>224,584</u>
Total Net Position	<u>\$ 13,800,290</u>	<u>\$ 13,540,864</u>	<u>\$ 259,426</u>

The following table provides a summary of the District's operations for the years ending December 31, 2017, and December 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,038,997	\$ 1,034,253	\$ 4,744
Charges for Services	2,995,094	2,888,455	106,639
Other Revenues	<u>120,457</u>	<u>79,377</u>	<u>41,080</u>
Total Revenues	<u>\$ 4,154,548</u>	<u>\$ 4,002,085</u>	<u>\$ 152,463</u>
Expenses for Services	<u>3,895,122</u>	<u>3,942,864</u>	<u>47,742</u>
Change in Net Position	\$ 259,426	\$ 59,221	\$ 200,205
Net Position, Beginning of Year	<u>13,540,864</u>	<u>13,481,643</u>	<u>59,221</u>
Net Position, End of Year	<u>\$ 13,800,290</u>	<u>\$ 13,540,864</u>	<u>\$ 259,426</u>

**BACLIFF MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2017, were \$3,551,861, an increase of \$22,034 from the prior year.

The General Fund fund balance increased by \$212,254, primarily due to service revenues exceeding operating expenditures during the year.

The Debt Service Fund fund balance increased by \$6,936, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$197,156 due to the capital expenditures incurred during the year which were paid from bond proceeds received in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year to increase service revenues as well as adjust several categories of expenditures based on changing cost estimates. Actual revenues were \$257,375 less than budgeted revenues primarily due to service revenues being lower than anticipated. Actual expenditures were \$919,589 less than budgeted expenditures, primarily due to lower than anticipated repairs, maintenance and capital costs.

CAPITAL ASSETS

Capital assets as of December 31, 2017, total \$23,225,173 (net of accumulated depreciation) and include land, buildings, and equipment as well as the water and wastewater systems. Current year construction in progress relates to water supply improvements and ground storage tank and pump station construction. Significant capital asset activity during the current fiscal year included the purchase of a sewer line inspection camera system, fencing at the wastewater treatment plant and 0.6 acres of land purchased adjacent to the wastewater treatment plant.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 335,899	\$ 294,890	\$ 41,009
Construction in Progress	4,174,881	3,973,180	201,701
Capital Assets, Net of Accumulated Depreciation:			
Buildings, Vehicles, and Equipment	1,265,587	1,316,699	(51,112)
Water System	4,507,665	4,642,774	(135,109)
Wastewater System	12,941,141	13,283,985	(342,844)
Total Net Capital Assets	\$ 23,225,173	\$ 23,511,528	\$ (286,355)

**BACLIFF MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

LONG-TERM DEBT ACTIVITY

As of December 31, 2017, the District had total bond debt payable of \$12,955,000. The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Bond Debt Payable, January 1, 2017	\$ 13,460,000
Less: Bond Principal Paid	<u>505,000</u>
Bond Debt Payable, December 31, 2017	<u>\$ 12,955,000</u>

The District's bonds have been assigned an "A-" rating. The Series 2013 Bonds carry an insured rating of AA by virtue of bond insurance issued by Build America Mutual Assurance Company. These ratings reflect all changes, if any, for the fiscal year ending December 31, 2017.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Bacliff Municipal Utility District, P. O. Box 8717, Bacliff, Texas 77518.

**BACLIFF MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2017**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 2,306,962	\$ 891,303
Cash with Galveston County Tax Office		30,986
Receivables:		
Property Taxes		602,610
Penalty and Interest on Delinquent Taxes		
Service Accounts	227,670	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,534,632	\$ 1,524,899
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,534,632	\$ 1,524,899

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 1,271,586	\$ 4,469,851	\$	\$ 4,469,851
	30,986		30,986
	602,610		602,610
		65,067	65,067
	227,670		227,670
		335,899	335,899
		4,174,881	4,174,881
		18,714,393	18,714,393
<u>\$ 1,271,586</u>	<u>\$ 5,331,117</u>	<u>\$ 23,290,240</u>	<u>\$ 28,621,357</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 266,492</u>	<u>\$ 266,492</u>
<u>\$ 1,271,586</u>	<u>\$ 5,331,117</u>	<u>\$ 23,556,732</u>	<u>\$ 28,887,849</u>

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

**BACLIFF MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2017**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 100,180	\$
Accrued Interest Payable		
Security Deposits	393,985	
Net Pension Liability		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 494,165	\$ -0-
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$	\$ 1,132,382
Deferred Inflows - Pensions		
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ -0-	\$ 1,132,382
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		392,517
Unassigned	2,040,467	
TOTAL FUND BALANCES	\$ 2,040,467	\$ 392,517
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,534,632	\$ 1,524,899
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 152,709	\$ 252,889	\$	\$ 252,889
		173,797	173,797
	393,985		393,985
		278,089	278,089
		520,000	520,000
		<u>12,435,000</u>	<u>12,435,000</u>
<u>\$ 152,709</u>	<u>\$ 646,874</u>	<u>\$ 13,406,886</u>	<u>\$ 14,053,760</u>
\$	\$ 1,132,382	\$ (99,699)	\$ 1,032,683
		<u>1,116</u>	<u>1,116</u>
<u>\$ -0-</u>	<u>\$ 1,132,382</u>	<u>\$ (98,583)</u>	<u>\$ 1,033,799</u>
\$ 1,118,877	\$ 1,118,877	\$ (1,118,877)	\$
	392,517	(392,517)	
	<u>2,040,467</u>	<u>(2,040,467)</u>	
<u>\$ 1,118,877</u>	<u>\$ 3,551,861</u>	<u>\$ (3,551,861)</u>	<u>\$ - 0 -</u>
<u>\$ 1,271,586</u>	<u>\$ 5,331,117</u>		
		\$ 11,389,050	\$ 11,389,050
		383,486	383,486
		<u>2,027,754</u>	<u>2,027,754</u>
		<u>\$ 13,800,290</u>	<u>\$ 13,800,290</u>

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

**BACLIFF MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances - Governmental Funds	\$	3,551,861
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred pension plan charges that are not immediately recognized as pension expense are recorded as deferred outflows or inflows of resources.		265,376
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		23,225,173
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.		164,766
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (173,797)	
Net Pension Liability	(278,089)	
Bonds Payable	<u>(12,955,000)</u>	<u>(13,406,886)</u>

Total Net Position - Governmental Activities	\$	<u>13,800,290</u>
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The accompanying notes to the financial statements are an integral part of this report.

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BACLIF MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$	\$ 1,038,346
Water Service	1,024,511	
Wastewater Service	1,633,943	
Street Lighting	86,190	
Penalty and Interest	51,519	28,840
Tap Connection and Inspection Fees	169,250	
Miscellaneous Revenues	115,412	
TOTAL REVENUES	<u>\$ 3,080,825</u>	<u>\$ 1,067,186</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Personnel	\$ 1,058,155	\$
Professional Fees	30,651	6,932
Solid Waste Disposal	549,924	
Contracted Services		11,557
Purchased Water Service	337,687	
Utilities	207,602	
Repairs and Maintenance	101,219	
Street Lighting	84,315	
Depreciation		
Other	438,651	593
Capital Outlay	60,367	
Debt Service:		
Bond Principal		505,000
Bond Interest		536,168
TOTAL EXPENDITURES/EXPENSES	<u>\$ 2,868,571</u>	<u>\$ 1,060,250</u>
NET CHANGE IN FUND BALANCES	\$ 212,254	\$ 6,936
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2017	<u>1,828,213</u>	<u>385,581</u>
FUND BALANCES/NET POSITION - DECEMBER 31, 2017	<u>\$ 2,040,467</u>	<u>\$ 392,517</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,038,346	\$ 651	\$ 1,038,997
	1,024,511		1,024,511
	1,633,943		1,633,943
	86,190		86,190
	80,359	841	81,200
	169,250		169,250
5,045	120,457		120,457
<u>\$ 5,045</u>	<u>\$ 4,153,056</u>	<u>\$ 1,492</u>	<u>\$ 4,154,548</u>
\$	\$ 1,058,155	\$ (12,330)	\$ 1,045,825
	37,583		37,583
	549,924		549,924
	11,557		11,557
	337,687		337,687
	207,602		207,602
	101,219		101,219
	84,315		84,315
		548,423	548,423
500	439,744		439,744
201,701	262,068	(262,068)	
	505,000	(505,000)	
	536,168	(4,925)	531,243
<u>\$ 202,201</u>	<u>\$ 4,131,022</u>	<u>\$ (235,900)</u>	<u>\$ 3,895,122</u>
\$ (197,156)	\$ 22,034	\$ (22,034)	\$
		259,426	259,426
1,316,033	3,529,827	10,011,037	13,540,864
<u>\$ 1,118,877</u>	<u>\$ 3,551,861</u>	<u>\$ 10,248,429</u>	<u>\$ 13,800,290</u>

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

BACLIFF MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Net Change in Fund Balances - Governmental Funds	\$	22,034
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		651
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		841
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(548,423)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and decreased by disposals and the Statement of Activities is not affected.		262,068
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Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		505,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		4,925
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The changes in the net pension liability as well as deferred inflows and outflows of resources are recorded as pension expense in the government-wide financial statements.		12,330
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Change in Net Position - Governmental Activities	\$	<u>259,426</u>
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The accompanying notes to the financial statements are an integral part of this report.

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. CREATION OF DISTRICT

Bacliff Municipal Utility District was created by the filing of a petition with the Legislature of Texas requesting that the District be organized in conformity with the Constitution and Laws of the State of Texas, particularly Chapter 25, Acts of the 39th Legislature of Texas, and Chapter 217, Acts of the Regular Sessions of the 52nd Legislature of Texas, 1951. As a result of this petition, the District was authorized by Senate Bill No. 503, Acts of the 58th Legislature of Texas, 1963. The organization meeting of the District was held on August 29, 1963. This District is governed by the Board of Directors, elected by the residents of the District. The Board is composed of five members and the financial statements of the District include all operations and activities for which the Board of Directors has oversight responsibility.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

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

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include 2016 tax levy collections during the period October 1, 2016, to December 31, 2017, and taxes collected from January 1, 2017, to December 31, 2017, for the 2015 and prior tax levies. The 2017 tax levy has been fully deferred to meet planned operating expenditures for the 2018 fiscal year.

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

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

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

Pensions

The District has 12 full time employees. Payments are made into the social security system for them. The Internal Revenue Service has determined that the District’s directors are considered “employees” for federal payroll tax purposes only. See Note 10 for more information on the full-time employee’s retirement plan.

Measurement Focus

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. LONG-TERM DEBT

	Series 2002	Series 2004
Amounts Outstanding – December 31, 2017	\$ 1,740,000	\$ 2,265,000
Interest Rates	3.05% - 3.40%	3.00% - 3.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2023	September 1, 2018/2025
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2012*	September 1 2014*
	Series 2012	Series 2013
Amounts Outstanding – December 31, 2017	\$ 2,425,000	\$ 6,525,000
Interest Rates	3.00% - 4.00%	4.50% - 4.75%
Maturity Dates – Serially Beginning/Ending	September 1, 2024/2037	September 1, 2024/2037
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	September 1 2019*	September 1 2022*

* In whole or in part, in inverse numerical order on any interest payment date thereafter at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. Series 2012 term bonds maturing September 1, 2026, September 1, 2028, September 1, 2030, September 1, 2032, September 1, 2034, and September 1, 2037, are subject to mandatory redemption beginning September 1, 2024, September 1, 2027, September 1, 2029, September 1, 2031, September 1, 2033, and September 1, 2035, respectively. Series 2013 term bonds maturing September 1, 2031, September 1, 2033 and September 1, 2037 are subject to mandatory redemption beginning September 1, 2030, September 1, 2032, and September 1, 2034, respectively.

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2017:

	January 1, 2017	Additions	Retirements	December 31, 2017
Bonds Payable	\$ 13,460,000	\$ -0-	\$ 505,000	\$ 12,955,000
			Amount Due Within One Year	\$ 520,000
			Amount Due After One Year	<u>12,435,000</u>
			Bonds Payable	<u>\$ 12,955,000</u>

As of December 31, 2017, the District had authorized but unissued bonds in the amount of \$706,000. As of December 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 520,000	\$ 521,393	\$ 1,041,393
2019	535,000	505,662	1,040,662
2020	555,000	489,066	1,044,066
2021	575,000	471,300	1,046,300
2022	590,000	452,606	1,042,606
2023-2027	2,935,000	1,944,373	4,879,373
2028-2032	3,220,000	1,342,939	4,562,939
2033-2037	<u>4,025,000</u>	<u>564,700</u>	<u>4,589,700</u>
	<u>\$ 12,955,000</u>	<u>\$ 6,292,039</u>	<u>\$ 19,247,039</u>

The bonds are payable from an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. During the year ended December 31, 2017, the District levied an ad valorem debt service tax rate of \$0.331174 per \$100 of assessed valuation, which resulted in a tax levy of \$1,032,683 on the adjusted taxable valuation of \$311,618,407 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. The District's tax calendar is as follows:

- Levy Date - October 1 or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt but not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. SIGNIFICANT BOND ORDERS AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$4,469,851 and the bank balance was \$4,479,409. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2017, as listed below:

	Cash
GENERAL FUND	\$ 2,306,962
DEBT SERVICE FUND	891,303
CAPITAL PROJECTS FUND	1,271,586
TOTAL DEPOSITS	\$ 4,469,851

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

As of December 31, 2017, the District did not have any investments.

Restrictions

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017.

	January 1, 2017	Increases	Decreases	December 31, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 294,890	\$ 41,009	\$	\$ 335,899
Construction in Progress	3,973,180	221,059	19,358	4,174,881
Total Capital Assets Not Being Depreciated	<u>\$ 4,268,070</u>	<u>\$ 262,068</u>	<u>\$ 19,358</u>	<u>\$ 4,510,780</u>
Capital Assets Subject to Depreciation				
Buildings, Vehicles, and Equipment	\$ 2,116,828	\$ 19,358	\$	\$ 2,136,186
Water System	6,239,229			6,239,229
Wastewater System	17,094,696			17,094,696
Total Capital Assets Subject to Depreciation	<u>\$ 25,450,753</u>	<u>\$ 19,358</u>	<u>\$ -0-</u>	<u>\$ 25,470,111</u>
Less Accumulated Depreciation				
Buildings, Vehicles, and Equipment	\$ 800,129	\$ 70,470	\$	\$ 870,599
Water System	1,596,455	135,109		1,731,564
Wastewater System	3,810,711	342,844		4,153,555
Total Accumulated Depreciation	<u>\$ 6,207,295</u>	<u>\$ 548,423</u>	<u>\$ -0-</u>	<u>\$ 6,755,718</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,243,458</u>	<u>\$ (529,065)</u>	<u>\$ -0-</u>	<u>\$ 18,714,393</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 23,511,528</u>	<u>\$ (266,997)</u>	<u>\$ 19,358</u>	<u>\$ 23,225,173</u>

NOTE 7. SURFACE WATER SUPPLY CONTRACT

On August 7, 1981, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement was amended on September 14, 1981, September 10, 1984, June 16, 1998, March 15, 2001, June 16, 2011, and May 1, 2014. The term of the agreement is through December 31, 2027. The District's total reserved capacity is currently 1,190,000 gallons-per-day in the original mainland portion of the water plant and its current contract quantity is 613,000 gallons-per-day. The contract allows the Authority to acquire, construct and operate a water treatment plant and related water supply system in order to provide potable water to its customers. Charges to the District include its allocation of raw water charges, capital charges and operating and maintenance charges. The District's purchased water costs totaled \$337,687.

NOTE 8. STREET LIGHTING

The District assesses the cost of installation, operating and maintaining the street lighting as an additional charge on the monthly billings of the District's customers. The current street lighting charge is \$2.25 per month. During the current year, the District recorded \$86,190 in revenues and \$84,315 in costs related to street lighting.

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9. RISK MANAGEMENT

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

NOTE 10. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 735 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 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 80 or more. Members are vested after 10 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 contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the District’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. At December 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled but not yet receiving benefits	4
Active employees	12

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10. PENSION PLAN (Continued)

Funding Policy

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

The employer contributed using the actuarially determined rate of 7.10% for calendar year 2017. The deposit rate payable by the employee members for calendar year 2017 is 7.00% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

Annual Pension Cost

For the District's accounting year ended December 31, 2017, the annual pension cost for the TCDRS plan for its employees was \$99,567; the actual contributions were \$99,567, of which, \$48,000 was a one-time catch-up payment. The employees contributed \$48,777 to the plan for the 2017 fiscal year. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB parameters based on the actuarial valuations as of December 31, 2016, the basis for determining the contribution rates for calendar year 2017. The December 31, 2016 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/14	12/31/15	12/31/16
Actuarial cost method	Entry age	Entry age	Entry age
	Level	Level	Level
	percentage,	percentage,	percentage,
Amortization method	closed	closed	closed
Amortization period	13.7	14.7	15.1
Asset valuation method	5 Year	5 Year	5 Year
	Smoothed	Smoothed	Smoothed
	Value	Value	Value
Actuarial Assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	4.90%	4.90%	4.90%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

¹ Includes inflation at the stated rate.

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10. PENSION PLAN (Continued)

Net Pension Liability

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

Mortality rates were based on the following:

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

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

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

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10. PENSION PLAN (Continued)

Net Pension Liability (Continued)

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

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net position (b)	Net Position Liability (a)-(b)
Balances of December 31, 2015	\$ 1,872,652	\$ 1,593,022	\$ 279,630
Changes for the year:			
Service cost	62,985		62,985
Interest on total pension liability	153,814		153,814
Effect of economic/demographic (gains) or losses	(1,302)		(1,302)
Benefit payments	(9,376)	(9,376)	
Administrative expenses		(1,284)	1,284
Member Contributions		47,077	(47,077)
Net Investment income		118,167	(118,167)
Employer contributions		49,027	(49,027)
Other		4,051	(4,051)
Balances of December 31, 2016	<u>\$ 2,078,773</u>	<u>\$ 1,800,684</u>	<u>\$ 278,089</u>

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

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 2,368,177	\$ 2,078,773	\$ 1,836,125
Fiduciary net position	<u>1,800,684</u>	<u>1,800,684</u>	<u>1,800,684</u>
Net pension liability	<u>\$ 566,493</u>	<u>\$ 278,089</u>	<u>\$ 35,441</u>

BACLIFF MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10. PENSION PLAN (Continued)

As of December 31, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 1,116	\$ 38,170
Changes of assumptions	-0-	9,996
Net difference between projected and actual earnings	-0-	118,759
Contributions made subsequent to measurement date	-0-	99,567
Total	1,116	266,492

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$99,567 will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 51,122
2018	51,122
2019	46,494
2020	10,071
2021	7,187
Thereafter	(186)

Other Postemployment Benefits

The District participates in a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the TCDRS. This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits. Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the GTLF. This report is available by contacting the TCDRS.

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 District's contributions for the years ending December 31, 2015, December 31, 2016 and December 31, 2017 were \$1,575, \$1,749 and \$1,674, respectively.

BACLIFF MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

BACLIFF MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Water and Wastewater Service, Other	\$ 2,989,900	\$ 3,152,400	\$ 2,825,385	\$ (327,015)
Street Lighting	80,500	80,500	86,190	5,690
Tap Connection and Inspection Fees	<u>75,000</u>	<u>105,300</u>	<u>169,250</u>	<u>63,950</u>
TOTAL REVENUES	<u>\$ 3,145,400</u>	<u>\$ 3,338,200</u>	<u>\$ 3,080,825</u>	<u>\$ (257,375)</u>
EXPENDITURES				
Services Operations:				
Personnel	\$ 1,116,300	\$ 1,096,900	\$ 1,058,155	\$ 38,745
Professional Fees	43,000	38,100	30,651	7,449
Solid Waste Disposal		527,300	549,924	(22,624)
Purchased Water Service	360,000	350,000	337,687	12,313
Utilities	234,400	225,500	207,602	17,898
Repairs and Maintenance/Capital Outlay	650,700	870,600	161,586	709,014
Street Lighting	80,500	76,000	84,315	(8,315)
Other	<u>627,360</u>	<u>603,760</u>	<u>438,651</u>	<u>165,109</u>
TOTAL EXPENDITURES	<u>\$ 3,112,260</u>	<u>\$ 3,788,160</u>	<u>\$ 2,868,571</u>	<u>\$ 919,589</u>
NET CHANGE IN FUND BALANCE	\$ 33,140	\$ (449,960)	\$ 212,254	\$ 662,214
FUND BALANCE - JANUARY 1, 2017	<u>1,828,213</u>	<u>1,828,213</u>	<u>1,828,213</u>	
FUND BALANCE - DECEMBER 31, 2017	<u>\$ 1,861,353</u>	<u>\$ 1,378,253</u>	<u>\$ 2,040,467</u>	<u>\$ 662,214</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
DECEMBER 31, 2017

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total Pension Liability			
Service cost	\$ 62,985	\$ 50,566	\$ 42,514
Interest on total pension liability	153,814	135,815	121,092
Effect of plan changes	-0-	5,251	-0-
Effect of assumption changes or inputs	-0-	13,994	-0-
Effect of economic/demographic (gains) or losses	(1,302)	37,614	22,607
Refund of contributions/benefit payments	<u>(9,376)</u>	<u>(25,672)</u>	<u>(10,287)</u>
Net change in total pension liability	\$ 206,121	\$ 217,568	\$ 175,926
Total pension liability, beginning	<u>1,872,652</u>	<u>1,655,084</u>	<u>1,479,158</u>
Total pension liability, ending (a)	<u>\$ 2,078,773</u>	<u>\$ 1,872,652</u>	<u>\$ 1,655,084</u>
Fiduciary Net Position			
Employer contributions	\$ 49,027	\$ 42,969	\$ 40,424
Member contributions	47,077	39,365	35,254
Investment income net of investment expenses	118,167	(32,734)	94,885
Benefit payments/refunds of contributions	(9,376)	(25,672)	(10,287)
Administrative expenses	(1,284)	(1,141)	(1,150)
Other	<u>4,051</u>	<u>(178)</u>	<u>(210)</u>
Net change in fiduciary net position	\$ 207,662	\$ 22,609	\$ 158,916
Fiduciary net position, beginning	<u>1,593,022</u>	<u>1,570,413</u>	<u>1,411,497</u>
Fiduciary net position, ending (b)	<u>\$ 1,800,684</u>	<u>\$ 1,593,022</u>	<u>\$ 1,570,413</u>
Net pension liability, ending = (a) – (b)	<u>\$ 278,089</u>	<u>\$ 279,630</u>	<u>\$ 84,671</u>
Fiduciary net position as a % of total pension liability	86.62%	85.07%	94.88%
Pensionable covered payroll	\$ 672,524	\$ 656,087	\$ 587,559
Net pension liability as a % of covered payroll	41.35%	42.62%	14.41%

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
DECEMBER 31, 2017

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2007	\$ 16,043	\$ 22,861	\$ (6,818)	\$ 401,070	5.7%
2008	\$ 15,688	\$ 22,356	\$ (6,668)	\$ 392,211	5.7%
2009	\$ 15,941	\$ 22,716	\$ (6,775)	\$ 398,528	5.7%
2010	\$ 29,498	\$ 29,600	\$ (102)	\$ 510,347	5.8%
2011	\$ 25,956	\$ 31,895	\$ (5,939)	\$ 549,921	5.8%
2012	\$ 30,166	\$ 29,002	\$ 1,164	\$ 496,156	5.8%
2013	\$ 34,409	\$ 34,409	\$ -0-	\$ 523,733	6.6%
2014	\$ 40,424	\$ 40,424	\$ -0-	\$ 587,559	6.9%
2015	\$ 42,969	\$ 42,969	\$ -0-	\$ 656,087	6.5%
2016	\$ 49,027	\$ 49,027	\$ -0-	\$ 672,524	7.3%

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

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

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.00%
Cost-of-Living Adjustments	Cost-of Living Adjustments for the District are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation
Mortality	Same as funding valuation, See Note 10

See accompanying independent auditor's report.

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BACLIFF MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2017

**BACLIFF MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective June 13, 2016.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 16.00	2,000	N	\$ 3.50	2,001 and up
WASTEWATER:	\$ 32.75*	2,000	N	\$ 3.25	2,001 and up
SURCHARGE:					
Commission					
Regulatory Assessments	0.50% of water and sewer bill				
Other – Street Lights	\$ 2.25				
VFD	\$ 7.00				

* Rate includes a solid waste fee of \$15.75

District employs winter averaging for wastewater usage? _____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$44.00 Wastewater: \$58.75 Surcharge: \$9.76

See accompanying independent auditor's report.

**BACLIFF MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	<u>3,871</u>	<u>3,196</u>	x 1.0	<u>3,196</u>
1"	<u>13</u>	<u>12</u>	x 2.5	<u>30</u>
1½"	<u>6</u>	<u>6</u>	x 5.0	<u>30</u>
2"	<u>24</u>	<u>22</u>	x 8.0	<u>176</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u>3,916</u>	<u>3,238</u>		<u>3,472</u>
Total Wastewater Connections	<u>4,202</u>	<u>3,524</u>	x 1.0	<u>3,524</u>

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

Gallons billed to customers:	185,258,000	Water Accountability Ratio: 86.14% (Gallons billed/Gallons purchased)
Gallons purchased:	215,076,000	From: <u>Gulf Coast Water Authority</u>

See accompanying independent auditor's report.

**BACLIFF MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Galveston County, Texas

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

Entirely Partly Not at all

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

PERSONNEL EXPENDITURES (Including Benefits)	
Salaries	\$ 696,808
Payroll Taxes	53,844
Pension	99,567
Insurance	<u>207,936</u>
TOTAL PERSONNEL EXPENDITURES	<u>\$ 1,058,155</u>
PROFESSIONAL FEES:	
Auditing	\$ 16,900
Engineering	2,466
Legal	7,785
Financial Advisor	<u>3,500</u>
TOTAL PROFESSIONAL FEES	<u>\$ 30,651</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 337,687</u>
UTILITIES:	
Electricity	\$ 195,506
Telephone	<u>12,096</u>
TOTAL UTILITIES	<u>\$ 207,602</u>
REPAIRS AND MAINTENANCE	<u>\$ 101,219</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,800
Dues	1,491
Insurance	58,448
Office Supplies and Postage	94,594
Training	16,861
Other	<u>4,729</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 183,923</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

CAPITAL OUTLAY		\$	<u>60,367</u>
SOLID WASTE DISPOSAL		\$	<u>549,924</u>
STREET LIGHTING		\$	<u>84,315</u>
OTHER EXPENDITURES:			
Chemicals		\$	4,739
Equipment Rental			5,984
Fuel and Lubricant			17,389
Meter and Supplies			97,896
Laboratory Fees			49,521
Permit Fees			42,947
Sludge Hauling			31,471
Small Tools and Equipment			1,839
Uniforms			<u>2,942</u>
TOTAL OTHER EXPENDITURES		\$	<u>254,728</u>
TOTAL EXPENDITURES		\$	<u>2,868,571</u>

Number of persons employed by the District	<u>12</u>	Full-Time	<u>-0-</u>	Part-Time
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See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Debt Service Taxes	
TAXES RECEIVABLE -		
JANUARY 1, 2017	\$ 641,662	
Adjustments to Beginning Balance	(4,401)	\$ 637,261
Original 2017 Tax Levy	\$ 944,282	
Adjustment to 2017 Tax Levy	88,401	1,032,683
TOTAL TO BE ACCOUNTED FOR		\$ 1,669,944
TAX COLLECTIONS:		
Prior Years	\$ 537,562	
Current Year	529,772	1,067,334
TAXES RECEIVABLE - DECEMBER 31, 2017		\$ 602,610
TAXES RECEIVABLE BY		
YEAR:		
2017		\$ 502,911
2016		27,947
2015		17,013
2014		12,049
2013		6,683
2012		5,044
2011		4,327
2010		3,876
2009		4,753
2008		3,308
2007		2,613
2006 and Prior		12,086
TOTAL		\$ 602,610

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 87,105,981	\$ 85,879,950	\$ 84,673,080	\$ 83,393,780
Improvements	235,188,121	178,897,748	169,056,083	151,510,159
Personal Property	22,158,343	29,875,569	21,681,461	16,462,695
Exemptions	<u>(32,834,038)</u>	<u>(18,130,420)</u>	<u>(17,517,601)</u>	<u>(15,405,142)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 311,618,407</u>	<u>\$ 276,522,847</u>	<u>\$ 257,893,023</u>	<u>\$ 235,961,492</u>
TAX RATES PER \$100 VALUATION:				
Debt Service Tax	<u>\$ 0.331174</u>	<u>\$ 0.376890</u>	<u>\$ 0.401964</u>	<u>\$ 0.433583</u>
ADJUSTED TAX LEVY*	<u>\$ 1,032,683</u>	<u>\$ 1,043,398</u>	<u>\$ 1,037,715</u>	<u>\$ 1,025,144</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED				
	<u>51.30 %</u>	<u>97.32 %</u>	<u>98.36 %</u>	<u>98.82 %</u>

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

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 0 2

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$ 265,000	\$ 56,670	\$ 321,670
2019	275,000	48,588	323,588
2020	285,000	39,924	324,924
2021	295,000	30,662	325,662
2022	305,000	20,928	325,928
2023	315,000	10,710	325,710
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 1,740,000</u>	<u>\$ 207,482</u>	<u>\$ 1,947,482</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 0 4

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$ 255,000	\$ 73,585	\$ 328,585
2019	260,000	65,936	325,936
2020	270,000	58,004	328,004
2021	280,000	49,500	329,500
2022	285,000	40,540	325,540
2023	295,000	31,278	326,278
2024	305,000	21,396	326,396
2025	315,000	11,024	326,024
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 2,265,000</u>	<u>\$ 351,263</u>	<u>\$ 2,616,263</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 1 2

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 90,238	\$ 90,238
2019		90,238	90,238
2020		90,238	90,238
2021		90,238	90,238
2022		90,238	90,238
2023		90,238	90,238
2024	50,000	90,238	140,238
2025	50,000	88,738	138,738
2026	155,000	87,238	242,238
2027	160,000	82,588	242,588
2028	165,000	77,388	242,388
2029	175,000	72,026	247,026
2030	180,000	65,900	245,900
2031	190,000	59,600	249,600
2032	195,000	52,000	247,000
2033	205,000	44,200	249,200
2034	210,000	36,000	246,000
2035	220,000	27,600	247,600
2036	230,000	18,800	248,800
2037	240,000	9,600	249,600
	<u>\$ 2,425,000</u>	<u>\$ 1,353,344</u>	<u>\$ 3,778,344</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 1 3

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 300,900	\$ 300,900
2019		300,900	300,900
2020		300,900	300,900
2021		300,900	300,900
2022		300,900	300,900
2023		300,900	300,900
2024	250,000	300,900	550,900
2025	250,000	289,650	539,650
2026	385,000	278,400	663,400
2027	405,000	261,075	666,075
2028	420,000	242,850	662,850
2029	440,000	223,950	663,950
2030	460,000	204,150	664,150
2031	485,000	183,450	668,450
2032	510,000	161,625	671,625
2033	530,000	138,038	668,038
2034	555,000	113,525	668,525
2035	585,000	87,162	672,162
2036	610,000	59,375	669,375
2037	640,000	30,400	670,400
	<u>\$ 6,525,000</u>	<u>\$ 4,379,950</u>	<u>\$ 10,904,950</u>

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 520,000	\$ 521,393	\$ 1,041,393
2019	535,000	505,662	1,040,662
2020	555,000	489,066	1,044,066
2021	575,000	471,300	1,046,300
2022	590,000	452,606	1,042,606
2023	610,000	433,126	1,043,126
2024	605,000	412,534	1,017,534
2025	615,000	389,412	1,004,412
2026	540,000	365,638	905,638
2027	565,000	343,663	908,663
2028	585,000	320,238	905,238
2029	615,000	295,976	910,976
2030	640,000	270,050	910,050
2031	675,000	243,050	918,050
2032	705,000	213,625	918,625
2033	735,000	182,238	917,238
2034	765,000	149,525	914,525
2035	805,000	114,762	919,762
2036	840,000	78,175	918,175
2037	880,000	40,000	920,000
	<u>\$ 12,955,000</u>	<u>\$ 6,292,039</u>	<u>\$ 19,247,039</u>

See accompanying independent auditor's report.

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BACLIFF MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2017

Description	Original Bonds Issued	Bonds Outstanding January 1, 2017
Bacliff Municipal Utility District Unlimited Tax Bonds - Series 2002	\$ 4,890,000	\$ 2,000,000
Bacliff Municipal Utility District Unlimited Tax Bonds - Series 2004	4,890,000	2,510,000
Bacliff Municipal Utility District Unlimited Tax Bonds - Series 2012	2,425,000	2,425,000
Bacliff Municipal Utility District Unlimited Tax Bonds - Series 2013	<u>6,525,000</u>	<u>6,525,000</u>
TOTAL	<u>\$ 18,730,000</u>	<u>\$ 13,460,000</u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 21,811,000
Amount Issued	<u>21,105,000</u>
Remaining to be Issued	<u>\$ 706,000</u>

Debt Service Fund cash balances as of December 31, 2017: \$ 922,289

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 962,352

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

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2017	2016	2015
REVENUES			
Water Service	\$ 1,024,511	\$ 1,001,776	\$ 974,461
Wastewater Service	1,633,943	1,630,222	1,004,161
Street Lighting	86,190	74,939	72,349
Penalty and Interest	51,519	58,985	47,958
Tap Connection and Inspection Fees	169,250	88,200	90,400
Miscellaneous Revenues	115,412	78,017	108,784
TOTAL REVENUES	\$ 3,080,825	\$ 2,932,139	\$ 2,298,113
EXPENDITURES			
Personnel	\$ 1,058,155	\$ 935,784	\$ 950,966
Professional Fees	30,651	26,385	30,259
Solid Waste Disposal	549,924	494,686	
Purchased Water Service	337,687	299,360	256,838
Utilities	207,602	222,625	217,322
Repairs and Maintenance	101,219	197,909	90,965
Street Lighting	84,315	70,140	61,278
Other	438,651	437,423	452,182
Capital Outlay	60,367	157,084	517,741
TOTAL EXPENDITURES	\$ 2,868,571	\$ 2,841,396	\$ 2,577,551
NET CHANGE IN FUND BALANCE	\$ 212,254	\$ 90,743	\$ (279,438)
BEGINNING FUND BALANCE	1,828,213	1,737,470	2,016,908
ENDING FUND BALANCE	\$ 2,040,467	\$ 1,828,213	\$ 1,737,470

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 945,359	\$ 943,709	33.3 %	34.1 %	42.5 %	42.1 %	42.0 %
972,232	966,520	53.0	55.6	43.7	43.2	42.9
71,626	69,981	2.8	2.6	3.1	3.2	3.1
49,623	53,571	1.7	2.0	2.1	2.2	2.4
115,050	62,550	5.5	3.0	3.9	5.1	2.8
95,038	154,140	3.7	2.7	4.7	4.2	6.8
<u>\$ 2,248,928</u>	<u>\$ 2,250,471</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 861,187	\$ 730,246	34.3 %	31.9 %	41.4 %	38.3 %	32.4 %
34,537	45,311	1.0	0.9	1.3	1.5	2.0
		17.8	16.9			
203,583	187,742	11.0	10.2	11.2	9.1	8.3
214,824	238,147	6.7	7.6	9.5	9.6	10.6
135,451	382,632	3.3	6.7	4.0	6.0	17.0
55,192	57,966	2.7	2.4	2.7	2.5	2.6
479,827	396,658	14.2	14.9	19.7	21.3	17.6
155,792	39,132	2.0	5.4	22.5	6.9	1.7
<u>\$ 2,140,393</u>	<u>\$ 2,077,834</u>	<u>93.0 %</u>	<u>96.9 %</u>	<u>112.3 %</u>	<u>95.2 %</u>	<u>92.2 %</u>
\$ 108,535	\$ 172,637	<u>7.0 %</u>	<u>3.1 %</u>	<u>(12.3) %</u>	<u>4.8 %</u>	<u>7.8 %</u>
<u>1,908,373</u>	<u>1,735,736</u>					
<u>\$ 2,016,908</u>	<u>\$ 1,908,373</u>					

See accompanying independent auditor's report.

BACLIFF MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,038,346	\$ 1,029,061	\$ 1,006,732
Penalty and Interest	<u>28,840</u>	<u>27,568</u>	<u>27,060</u>
TOTAL REVENUES	<u>\$ 1,067,186</u>	<u>\$ 1,056,629</u>	<u>\$ 1,033,792</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 17,532	\$ 20,698	\$ 14,874
Debt Service Principal	505,000	490,000	480,000
Debt Service Interest and Fees	<u>537,718</u>	<u>552,314</u>	<u>565,273</u>
TOTAL EXPENDITURES	<u>\$ 1,060,250</u>	<u>\$ 1,063,012</u>	<u>\$ 1,060,147</u>
NET CHANGE IN FUND BALANCE	\$ 6,936	\$ (6,383)	\$ (26,355)
BEGINNING FUND BALANCE	<u>385,581</u>	<u>391,964</u>	<u>418,319</u>
ENDING FUND BALANCE	<u>\$ 392,517</u>	<u>\$ 385,581</u>	<u>\$ 391,964</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>3,238</u>	<u>3,185</u>	<u>3,087</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>3,524</u>	<u>3,412</u>	<u>3,314</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 718,451	\$ 662,325	97.3 %	97.4 %	97.4 %	96.4 %	95.3 %
<u>26,740</u>	<u>32,941</u>	<u>2.7</u>	<u>2.6</u>	<u>2.6</u>	<u>3.6</u>	<u>4.7</u>
<u>\$ 745,191</u>	<u>\$ 695,266</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 14,992	\$ 15,106	1.6 %	2.0 %	1.4 %	2.0 %	2.2 %
470,000	455,000	47.3	46.4	46.4	63.1	65.4
<u>546,952</u>	<u>261,676</u>	<u>50.4</u>	<u>52.3</u>	<u>54.7</u>	<u>73.4</u>	<u>37.6</u>
<u>\$ 1,031,944</u>	<u>\$ 731,782</u>	<u>99.3 %</u>	<u>100.7 %</u>	<u>102.5 %</u>	<u>138.5 %</u>	<u>105.2 %</u>
\$ (286,753)	\$ (36,516)	<u>0.7 %</u>	<u>(0.7) %</u>	<u>(2.5) %</u>	<u>(38.5) %</u>	<u>(5.2) %</u>
<u>705,072</u>	<u>741,588</u>					
<u>\$ 418,319</u>	<u>\$ 705,072</u>					
<u>2,980</u>	<u>2,857</u>					
<u>3,243</u>	<u>3,207</u>					

See accompanying independent auditor's report.

**BACLIFF MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

District Mailing Address - Bacliff Municipal Utility District
P.O. Box 8717
Bacliff, TX 77518

District's Telephone Number - (281) 339-1634

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>December 31, 2017</u>	Expense Reimbursements for the year ended <u>December 31, 2017</u>	<u>Title</u>
Brad Bingham	05/16 05/20 (Elected)	\$ 1,200	\$ -0-	President
Dale Patterson	05/14 05/18 (Elected)	\$ 2,000	\$ -0-	Vice President/ Secretary
Tony Poynor	09/16 05/18 (Appointed)	\$ 1,500	\$ -0-	Director
Don Rodgers	05/14 05/18 (Elected)	\$ 1,600	\$ -0-	Director
Victor Medina	05/16 05/20 (Elected)	\$ 1,500	\$ -0-	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
January 18, 2016.

Limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 in accordance with Commission Requirements. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**BACLIFF MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

	<u>Date Hired</u>	<u>Fees/ Compensation for the fiscal year ended December 31, 2017</u>	<u>Title</u>
Key Administrative Personnel:			
James Wistinghausen	09/11/89	\$ 115,664	General Superintendent
Yvonne Manis	10/09	\$ 68,641	Office Manager/ Investment Officer
Trina Alexander	11/07/88	\$ 60,355	Supervisor
Consultants:			
Reid, Strickland & Gillette	Prior to 1990	\$ 7,785	General Counsel
McCall Gibson Swedlund Barfoot PLLC	07/12/10	\$ 16,900	Auditor
Freese & Nichols, Inc.	Prior to 1989	\$ 8,186	Engineer
FirstSouthwest, a Division of Hilltop Securities Inc.		\$ 3,500	Financial Advisor

See accompanying independent auditor's report.

