

**BRAZORIA COUNTY MUNICIPAL
UTILITY DISTRICT NO. 26**

BRAZORIA COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2018

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Independent Auditors' Report

Board of Directors
Brazoria County Municipal Utility District No. 26
Brazoria County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Brazoria County Municipal Utility District No. 26, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 basic 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 basic financial statements are free of 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 to provide a basis for our audit opinions.

***Board of Directors
Brazoria County Municipal Utility District No. 26
Brazoria County, Texas***

Opinion

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 Brazoria County Municipal Utility District No. 26, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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.

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 basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

W.C. Grath & Co, PC

Houston, Texas
January 8, 2019

Management's Discussion and Analysis

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***Brazoria County Municipal Utility District No. 26
Management's Discussion and Analysis
September 30, 2018***

Using this Annual Report

Within this section of the financial report of Brazoria County Municipal Utility District No. 26 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Brazoria County Municipal Utility District No. 26
Management’s Discussion and Analysis
September 30, 2018***

The *Statement of Activities* reports how the District’s net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District’s use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District’s net position at September 30, 2018, was \$10,811,517. A comparative summary of the District’s overall financial position, as of September 30, 2018 and 2017, is as follows:

	2018	2017
Current and other assets	\$ 6,571,213	\$ 7,266,715
Capital assets	28,146,550	28,506,696
Total assets	<u>34,717,763</u>	<u>35,773,411</u>
Total deferred outflows of resources	<u>441,004</u>	<u>490,004</u>
Current liabilities	4,904,739	4,707,727
Long-term liabilities	19,442,511	27,717,851
Total liabilities	<u>24,347,250</u>	<u>32,425,578</u>
Net position		
Net investment in capital assets	16,171,295	12,384,338
Restricted	4,415,576	5,344,471
Unrestricted	<u>(9,775,354)</u>	<u>(13,890,972)</u>
Total net position	<u>\$ 10,811,517</u>	<u>\$ 3,837,837</u>

***Brazoria County Municipal Utility District No. 26
Management’s Discussion and Analysis
September 30, 2018***

The total net position of the District increased during the current fiscal year by \$6,973,680. A comparative summary of the District’s *Statement of Activities* for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Property taxes, penalties and interest	\$ 7,304,439	\$ 6,592,323
City of Pearland rebates	1,535,495	1,488,216
Other	<u>145,928</u>	<u>62,927</u>
Total revenues	<u>8,985,862</u>	<u>8,143,466</u>
Expenses		
Operating and administrative	516,932	404,211
Debt interest and fees	1,109,296	1,372,059
Developer interest	495	
Amortization	<u>385,459</u>	<u>384,358</u>
Total expenses	<u>2,012,182</u>	<u>2,160,628</u>
Change in net position	6,973,680	5,982,838
Net position, beginning of year	<u>3,837,837</u>	<u>(2,145,001)</u>
Net position, end of year	<u>\$ 10,811,517</u>	<u>\$ 3,837,837</u>

Financial Analysis of the District’s Funds

The District’s combined fund balances, as of September 30, 2018, were \$6,331,364, which consists of \$1,304,336 in the General Fund, \$4,395,128 in the Debt Service Fund, and \$631,900 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund’s financial position as of September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 1,330,813</u>	<u>\$ 1,050,858</u>
Total liabilities	\$ 23,196	\$ 9,094
Total deferred inflows	3,281	2,301
Total fund balance	<u>1,304,336</u>	<u>1,039,463</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,330,813</u>	<u>\$ 1,050,858</u>

***Brazoria County Municipal Utility District No. 26
Management’s Discussion and Analysis
September 30, 2018***

A comparative summary of the General Fund’s activities for the current and prior fiscal year is as follows:

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 665,531	\$ 604,122
Total expenditures	(400,658)	(297,304)
Revenues over expenditures	<u>\$ 264,873</u>	<u>\$ 306,818</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District’s primary financial resources in the General Fund are from a property tax levy and City of Pearland utility rebates. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because assessed values increased from prior year.
- City of Pearland utility rebates are based on the number of equivalent single-family connections located within the District and increases as the number of connections increases.

Debt Service Fund

A comparative summary of the Debt Service Fund’s financial position as of September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 4,502,119</u>	<u>\$ 5,443,104</u>
Total liabilities	\$ 15,015	\$ 2,092
Total deferred inflows	91,976	64,656
Total fund balance	<u>4,395,128</u>	<u>5,376,356</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 4,502,119</u>	<u>\$ 5,443,104</u>

A comparative summary of the Debt Service Fund’s activities for the current and prior fiscal year is as follows:

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 8,282,670	\$ 7,504,468
Total expenditures	(9,263,898)	(5,892,744)
Revenues over/(under) expenditures	<u>\$ (981,228)</u>	<u>\$ 1,611,724</u>

The District’s financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and City of Pearland tax rebates. The difference between these financial resources and debt service requirements resulted in changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor,

***Brazoria County Municipal Utility District No. 26
 Management’s Discussion and Analysis
 September 30, 2018***

who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

During the current year, the District redeemed \$3,495,000 of its outstanding Series 2006 bonds prior to their stated maturity. This early redemption will save the District \$1,824,983 in future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund’s financial position as of September 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	\$ 631,900	\$ 651,545
Total fund balance	\$ 631,900	\$ 651,545

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 9,361	\$ 2,060
Total expenditures	(29,006)	(733)
Revenues over/(under) expenditures	\$ (19,645)	\$ 1,327

The District has not had any significant capital asset activity in the last two years.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District’s budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$50,020 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District’s financial statements upon completion of construction.

***Brazoria County Municipal Utility District No. 26
Management's Discussion and Analysis
September 30, 2018***

Capital assets held by the District at September 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 20,214,088</u>	<u>\$ 20,214,088</u>
Capital assets being amortized		
Impact fees	12,185,675	12,160,362
Less accumulated amortization	<u>(4,253,213)</u>	<u>(3,867,754)</u>
	<u>7,932,462</u>	<u>8,292,608</u>
Capital assets, net	<u>\$ 28,146,550</u>	<u>\$ 28,506,696</u>

The District and the City of Pearland (the "City") have entered into an agreement which obligates the District to construct water, wastewater and storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. Additional information is presented in Note 8.

Long-Term Debt and Related Liabilities

At September 30, 2018 and 2017, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2018</u>	<u>2017</u>
2005	\$ 4,350,000	\$ 4,870,000
2006	5,370,000	9,415,000
2009	705,000	875,000
2011	500,000	975,000
2012 Refunding	6,220,000	6,765,000
2013 Refunding	620,000	1,220,000
2014	5,300,000	5,690,000
2016	<u>1,425,000</u>	<u>2,775,000</u>
	<u>\$ 24,490,000</u>	<u>\$ 32,585,000</u>

At September 30, 2018, the District had \$33,520,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$72,200,000 for refunding purposes.

***Brazoria County Municipal Utility District No. 26
 Management’s Discussion and Analysis
 September 30, 2018***

Next Year’s Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and City of Pearland utility rebates and the projected cost of operating the District. A comparison of next year’s budget to current year actual amounts for the General Fund is as follows:

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 665,531	\$ 657,590
Total expenditures	<u>(400,658)</u>	<u>(408,150)</u>
Revenues over expenditures	264,873	249,440
Beginning fund balance	<u>1,039,463</u>	<u>1,304,336</u>
Ending fund balance	<u><u>\$ 1,304,336</u></u>	<u><u>\$ 1,553,776</u></u>

Property Taxes

The District’s property tax base increased approximately \$33,538,000 for the 2018 tax year from \$1,050,889,563 to \$1,084,427,654. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.03 per \$100 of assessed value and a debt service tax rate of \$0.66 per \$100 of assessed value, for a total combined tax rate of \$0.69 per \$100. These are the same rates levied for the 2017 tax year.

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Basic Financial Statements

Brazoria County Municipal Utility District No. 26
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 173,967	\$ 340,787	\$ 21,530	\$ 536,284	\$ -	\$ 536,284
Investments	1,044,154	4,057,977	610,370	5,712,501		5,712,501
Taxes receivable	3,281	91,976		95,257		95,257
Due from City of Pearland	89,905			89,905		89,905
Interest receivable	5,905	11,379		17,284		17,284
Prepaid items	2,578			2,578		2,578
Other receivables	11,023			11,023		11,023
Prepaid bond insurance, net					106,381	106,381
Capital assets not being depreciated					20,214,088	20,214,088
Capital assets, net					7,932,462	7,932,462
Total Assets	<u>\$ 1,330,813</u>	<u>\$ 4,502,119</u>	<u>\$ 631,900</u>	<u>\$ 6,464,832</u>	<u>28,252,931</u>	<u>34,717,763</u>
Deferred Outflows of Resources						
Deferred difference on refunding					441,004	441,004
Liabilities						
Accounts payable	\$ 23,196	\$ -	\$ -	\$ 23,196		23,196
Other payables		15,015		15,015		15,015
Accrued interest payable					71,528	71,528
Long-term debt						
Due within one year					4,795,000	4,795,000
Due after one year					19,442,511	19,442,511
Total Liabilities	<u>23,196</u>	<u>15,015</u>	<u></u>	<u>38,211</u>	<u>24,309,039</u>	<u>24,347,250</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>3,281</u>	<u>91,976</u>	<u></u>	<u>95,257</u>	<u>(95,257)</u>	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	2,578			2,578	(2,578)	
Restricted		4,395,128	631,900	5,027,028	(5,027,028)	
Unassigned	1,301,758			1,301,758	(1,301,758)	
Total Fund Balances	<u>1,304,336</u>	<u>4,395,128</u>	<u>631,900</u>	<u>6,331,364</u>	<u>(6,331,364)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,330,813</u>	<u>\$ 4,502,119</u>	<u>\$ 631,900</u>	<u>\$ 6,464,832</u>		
Net Position						
Net investment in capital assets					16,171,295	16,171,295
Restricted for debt service					4,415,576	4,415,576
Unrestricted					(9,775,354)	(9,775,354)
Total Net Position					<u>\$ 10,811,517</u>	<u>\$ 10,811,517</u>

See notes to basic financial statements.

Brazoria County Municipal Utility District No. 26
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 314,254	\$ 6,905,551	\$ -	\$ 7,219,805	\$ 24,667	\$ 7,244,472
Penalties and interest		56,334		56,334	3,633	59,967
City of Pearland rebates	307,758	1,227,737		1,535,495		1,535,495
Security services	29,721			29,721		29,721
Investment earnings	13,798	93,048	9,361	116,207		116,207
Total Revenues	<u>665,531</u>	<u>8,282,670</u>	<u>9,361</u>	<u>8,957,562</u>	<u>28,300</u>	<u>8,985,862</u>
Expenditures/Expenses						
Operating and administrative						
Professional fees	226,257		3,126	229,383		229,383
Contracted services	90,022	104,271		194,293		194,293
Repairs and maintenance	5,656			5,656		5,656
Administrative	78,623	3,805		82,428		82,428
Other	100	5,000	72	5,172		5,172
Capital outlay			25,313	25,313	(25,313)	
Debt service						
Principal		4,600,000		4,600,000	(4,600,000)	
Interest and fees		1,055,822		1,055,822	53,474	1,109,296
Developer interest			495	495		495
Early extinguishment of debt		3,495,000		3,495,000	(3,495,000)	
Amortization					385,459	385,459
Total Expenditures/Expenses	<u>400,658</u>	<u>9,263,898</u>	<u>29,006</u>	<u>9,693,562</u>	<u>(7,681,380)</u>	<u>2,012,182</u>
Revenues Over/(Under) Expenditures	264,873	(981,228)	(19,645)	(736,000)	736,000	
Change in Net Position					6,973,680	6,973,680
Fund Balance/Net Position						
Beginning of the year	1,039,463	5,376,356	651,545	7,067,364	(3,229,527)	3,837,837
End of the year	<u>\$ 1,304,336</u>	<u>\$ 4,395,128</u>	<u>\$ 631,900</u>	<u>\$ 6,331,364</u>	<u>\$ 4,480,153</u>	<u>\$ 10,811,517</u>

See notes to basic financial statements.

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Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Brazoria County Municipal Utility District No. 26 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of Texas Natural Resource Conservation Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated March 18, 2002, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 19, 2002 and the first bonds were sold on March 16, 2004.

The District’s primary activities include construction of water, sewer and drainage facilities. As further discussed in Note 8, the District transfers these facilities to the City of Pearland upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board 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 statements as component units.

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*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and City of Pearland utility rebates. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenues for debt service are property taxes and tax rebates from the City of Pearland. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

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 an adjustments column for reconciling items between the two.

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.

The fund financial statements are reported using the current financial resources measurement focus and 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. Revenues susceptible to accrual include property taxes, interest earned on investments, and City of Pearland rebates. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Prepaid Bond Insurance

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2018, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 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 District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Impact fees paid to the City of Pearland (the "City") are amortized over the remaining life of the District's contract with the City. The District's detention facilities are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from refunding bond transactions in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service and City of Pearland tax rebates in the Debt Service Fund.

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. 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 an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables and the useful lives and impairment of capital assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 6,331,364
Prepaid bond insurance is recorded as an expenditure in the funds, but is recorded as a prepaid asset and amortized to interest expense in the <i>Statement of Activities</i> .		106,381
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 32,399,763	
Less accumulated amortization	<u>(4,253,213)</u>	
Change due to capital assets		28,146,550
The difference between the face amount of bonds refunded and the amount paid to refund the bonds is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.		441,004
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(24,237,511)	
Interest payable on bonds	<u>(71,528)</u>	
Change due to long-term debt		(24,309,039)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
Property taxes receivable	74,050	
Penalty and interest receivable	<u>21,207</u>	
Change due to property taxes		95,257
Total net position - governmental activities		<u><u>\$ 10,811,517</u></u>

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

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

Net change in fund balances - total governmental funds	\$ (736,000)
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.	28,300
Capital outlays for developer reimbursements are recorded as expenditures in the fund, but reduce the liability for due to developer in the <i>Statement of Net Position</i> .	25,313
In the <i>Statement of Activities</i> , the cost of capital assets is charged to expense over the estimated useful life of the asset.	(385,459)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.	
Early extinguishment of long term debt	\$ 3,495,000
Principal payments	4,600,000
Interest expense accrual	<u>(53,474)</u>
	8,041,526
Change in net position of governmental activities	<u><u>\$ 6,973,680</u></u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (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) certain insured or collateralized certificates of deposit and share certificates, (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 has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of September 30, 2018, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	General	\$ 720,000			
	Debt Service	1,449,473			
		<u>2,169,473</u>	38%	N/A	N/A
TexPool	General	324,154			
	Debt Service	2,608,504			
	Capital Projects	610,370			
		<u>3,543,028</u>	62%	AAAm	28 days
Total		<u>\$ 5,712,501</u>	<u>100%</u>		

The District’s investments in certificates of deposit are reported at cost.

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 3 – Deposits and Investments (continued)

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2018, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 20,214,088	\$ -	\$ 20,214,088
Capital assets being amortized			
Impact fees	12,160,362	25,313	12,185,675
Less accumulated amortization	(3,867,754)	(385,459)	(4,253,213)
	<u>8,292,608</u>	<u>(360,146)</u>	<u>7,932,462</u>
Capital assets, net	<u>\$ 28,506,696</u>	<u>\$ (360,146)</u>	<u>\$ 28,146,550</u>

Amortization expense for the current year was \$385,459.

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 5 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete.

Changes in amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ -
Developer reimbursements	25,313
Developer funded impact fees	<u>(25,313)</u>
Due to developers, end of year	<u><u>\$ -</u></u>

Note 6 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 24,490,000
Unamortized discounts	(575,341)
Unamortized premium	322,852
	<u>\$ 24,237,511</u>
Due within one year	<u><u>\$ 4,795,000</u></u>

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 6 – Long-Term Debt (continued)

The District’s bonds payable at September 30, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2005	\$ 4,350,000	\$ 16,000,000	4.0% - 4.5%	September 1, 2006/2025	March 1, September 1	September 1, 2012
2006	5,370,000	16,165,000	4.0% - 4.6%	September 1, 2007/2030	March 1, September 1	September 1, 2013
2009	705,000	3,960,000	4.5% - 5.5%	September 1, 2011/2022	March 1, September 1	September 1, 2016
2011	500,000	3,225,000	2.0% - 3.0%	September 1, 2012/2019	March 1, September 1	September 1, 2018
2012 Refunding	6,220,000	7,880,000	2.0% - 4.0%	September 1, 2013/2027	March 1, September 1	September 1, 2019
2013 Refunding	620,000	3,550,000	2.0% - 3.0%	September 1, 2013/2019	March 1, September 1	N/A
2014	5,300,000	6,475,000	1.0% - 2.5%	September 1, 2016/2022	March 1, September 1	N/A
2016	1,425,000	4,125,000	1.0% - 1.5%	September 1, 2017/2019	March 1, September 1	N/A
	<u>\$ 24,490,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At September 30, 2018, the District had authorized but unissued bonds in the amount of \$33,520,000 for water, sewer and drainage facilities and \$72,200,000 for refunding purposes.

During the current year, the District used surplus debt service funds to redeem \$3,495,000 of its outstanding Series 2006 bonds prior to their stated maturity. This early redemption will save the District \$1,824,983 in future debt service requirements.

The change in the District’s long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 32,585,000
Bonds retired	(4,600,000)
Early extinguishment of debt	(3,495,000)
Bonds payable, end of year	<u>\$ 24,490,000</u>

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 6 – Long-Term Debt (continued)

As of September 30, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 4,795,000	\$ 887,936	\$ 5,682,936
2020	3,500,000	746,938	4,246,938
2021	3,655,000	633,273	4,288,273
2022	3,815,000	506,134	4,321,134
2023	2,020,000	373,131	2,393,131
2024	2,115,000	286,324	2,401,324
2025	2,205,000	194,775	2,399,775
2026	1,565,000	99,300	1,664,300
2027	820,000	32,800	852,800
	<u>\$ 24,490,000</u>	<u>\$ 3,760,611</u>	<u>\$ 28,250,611</u>

Note 7 – Property Taxes

On May 4, 2002, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.10 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Brazoria County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$0.69 per \$100 of assessed value, of which \$0.03 was allocated to maintenance and operations and \$0.66 was allocated to debt service. The resulting tax levy was \$7,251,138 on the adjusted taxable value of \$1,050,889,563.

Total property taxes receivable, at September 30, 2018, consisted of the following:

Current year taxes receivable	\$ 50,296
Prior years taxes receivable	23,754
	<u>74,050</u>
Penalty and interest receivable	21,207
Total property taxes receivable	<u>\$ 95,257</u>

Brazoria County Municipal Utility District No. 26
Notes to Basic Financial Statements
September 30, 2018

Note 8 – Utility Agreement with the City of Pearland

On March 2002, the District assumed the terms of a 2001 utility agreement between the City of Pearland (the “City”) and the District’s developers. The agreement stipulates the City’s regulatory authority over the development of the District; establishes certain restrictions and commitments related to the development of the District; and sets forth detailed design, constructions standards and stipulations regarding the conveyance of ownership of the District facilities to the City. Upon acceptance, the City will operate the facilities, provide service to users within the District, maintain all customer information and records and provide monthly billings to customers served by the facilities. The agreement stipulates that the District shall not be authorized to sell bonds until it has provided the City with a certified copy of the TCEQ order approving each bond issue in which the TCEQ concludes that a District debt service rate of \$1.50 or less per \$100 of assessed valuation is feasible in accordance with the TCEQ’s rules.

Other stipulations include an annual payment by the City to the District, for a portion of the City’s tax revenues collected by the City for future years on land and improvements within the District at a declining rate from \$0.15 per \$100 of assessed valuation that shall be deposited by the District into a debt service fund. During the current fiscal year, the rate was \$0.11 per \$100 and the District received \$1,227,737. The rebate is incrementally reduced upon the occurrence of all of the following (1) the debt service tax rate decreases below \$0.80, (2) development within the District is complete, and all facilities have been financed, and (3) all developers have been reimbursed.

In addition to the annual payment, the City shall make a payment each month equal to \$5 per equivalent single family connection (ESFCs) located within the District. During the year ended September 30, 2018, the District recorded \$307,758 in revenue from the City.

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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Required Supplementary Information

*Brazoria County Municipal Utility District No. 26
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2018*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 316,623	\$ 314,254	\$ (2,369)
City of Pearland rebates	253,000	307,758	54,758
Security service	31,350	29,721	(1,629)
Investment earnings	3,000	13,798	10,798
Total Revenues	<u>603,973</u>	<u>665,531</u>	<u>61,558</u>
Expenditures			
Operating and administrative			
Professional fees	141,500	226,257	(84,757)
Contracted services	84,000	90,022	(6,022)
Recreational facilities expenses	5,000		5,000
Repair and maintenance		5,656	(5,656)
Administrative	58,580	78,623	(20,043)
Other		100	(100)
Total Expenditures	<u>289,080</u>	<u>400,658</u>	<u>(111,578)</u>
Revenues Over Expenditures	314,893	264,873	(50,020)
Fund Balance			
Beginning of the year	<u>1,039,463</u>	<u>1,039,463</u>	
End of the year	<u>\$ 1,354,356</u>	<u>\$ 1,304,336</u>	<u>\$ (50,020)</u>

Brazoria County Municipal Utility District No. 26
Notes to Required Supplementary Information
September 30, 2018

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Brazoria County Municipal Utility District No. 26
TSI-1. Services and Rates
September 30, 2018

1. Services provided by the District During the Fiscal Year:

- | | | | |
|---|---|---|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input checked="" type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Roads | <input checked="" type="checkbox"/> Security |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | |
| <input checked="" type="checkbox"/> Other (Specify): <u>Water and sewer services are provided by the City of Pearland</u> | | | |

2. Retail Service Providers N/A
 (You may omit this information if your district does not provide retail services)

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

Brazoria County Municipal Utility District No. 26
TSI-1. Services and Rates
September 30, 2018

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u> N/A </u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u> N/A </u>	<u> N/A </u>

4. Standby Fees (authorized only under TWC Section 49.231):
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Brazoria County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: City of Pearland

Is the District located within a city's extra territorial jurisdiction (ETJ)?
 Entirely Partly Not at all

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-2 General Fund Expenditures
For the Year Ended September 30, 2018

Professional fees	
Legal	\$ 180,107
Audit	11,500
Engineering	34,650
	<u>226,257</u>
Contracted services	
Bookkeeping	26,656
Security services	63,366
	<u>90,022</u>
Repairs and maintenance	<u>5,656</u>
Administrative	
Directors fees	13,950
Printing and office supplies	1,790
Insurance	5,429
Other	57,454
	<u>78,623</u>
Other	<u>100</u>
Total expenditures	<u><u>\$ 400,658</u></u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-3. Investments
September 30, 2018

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Interest Receivable</u>
General					
TexPool	XXXXXX00001	Variable	N/A	\$ 324,154	\$ -
Certificate of deposit	XX43820	2.00%	5/9/2018	240,000	2,288
Certificate of deposit	XXXX47615	2.20%	5/31/2019	240,000	1,772
Certificate of deposit	XXX25458	2.30%	5/31/2019	240,000	1,845
				<u>1,044,154</u>	<u>5,905</u>
Debt Service					
TexPool	XXXXXX00003	Variable	N/A	2,608,504	
Certificate of deposit	XX924	1.10%	12/9/2017	246,114	2,188
Certificate of deposit	XXXXXX12068	2.00%	5/3/2019	240,000	1,973
Certificate of deposit	XXXXXX04065	1.85%	10/26/2018	243,359	1,924
Certificate of deposit	XXXXXX30764	2.10%	5/31/2019	240,000	1,685
Certificate of deposit	XXXX47607	2.20%	5/31/2019	240,000	1,765
Certificate of deposit	XXX25466	2.20%	5/31/2019	240,000	1,845
				<u>4,057,977</u>	<u>11,379</u>
Capital Projects					
TexPool	XXXXXX00002	Variable	N/A	<u>610,370</u>	
Total - All Funds				<u>\$ 5,712,501</u>	<u>\$ 17,284</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-4. Taxes Levied and Receivable
September 30, 2018

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 2,301	\$ 47,082	\$ 49,383	
Adjustments	(247)	(5,418)	(5,665)	
Adjusted Receivable	2,054	41,664	43,718	
2017 Original Tax Levy	286,413	6,301,091	6,587,504	
Adjustments	28,854	634,780	663,634	
Adjusted Tax Levy	315,267	6,935,871	7,251,138	
Total to be accounted for	317,321	6,977,535	7,294,856	
Tax collections				
Current year	313,080	6,887,762	7,200,842	
Prior years	960	19,004	19,964	
Total Collections	314,040	6,906,766	7,220,806	
Taxes Receivable, End of Year	\$ 3,281	\$ 70,769	\$ 74,050	
Taxes Receivable, By Years				
2017	\$ 2,187	\$ 48,109	\$ 50,296	
2016	622	13,691	14,313	
2015	167	3,684	3,851	
2014 and prior	305	5,285	5,590	
Taxes Receivable, End of Year	\$ 3,281	\$ 70,769	\$ 74,050	
	2017	2016	2015	2014
Property Valuations				
Land	\$ 245,740,226	\$ 236,567,226	\$ 227,506,282	\$ 226,145,802
Improvements	1,011,369,301	921,449,834	800,737,189	727,810,310
Personal Property	47,499,025	41,356,275	37,930,735	36,379,250
Exemptions	(253,718,989)	(251,272,266)	(224,933,069)	(208,698,501)
Total Property Valuations	\$ 1,050,889,563	\$ 948,101,069	\$ 841,241,137	\$ 781,636,861
Tax Rates per \$100 Valuation				
Maintenance tax rates	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03
Debt service tax rates	0.66	0.66	0.66	0.66
Total Tax Rates per \$100 Valuation	\$ 0.69	\$ 0.69	\$ 0.69	\$ 0.69
Adjusted Tax Levy:	\$ 7,251,138	\$ 6,541,897	\$ 5,804,564	\$ 5,393,294
Percentage of Taxes Collected to Taxes Levied **	99.31%	99.78%	99.93%	99.97%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.10 on May 4, 2002

** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditors' report.

*Brazoria County Municipal Utility District No. 26
 TSI-5. Long-Term Debt Service Requirements
 Series 2005--by Years
 September 30, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 540,000	\$ 191,106	\$ 731,106
2020	570,000	168,158	738,158
2021	595,000	143,648	738,648
2022	615,000	117,764	732,764
2023	645,000	90,706	735,706
2024	675,000	62,324	737,324
2025	710,000	31,950	741,950
	<u>\$ 4,350,000</u>	<u>\$ 805,656</u>	<u>\$ 5,155,656</u>

See accompanying auditors' report.

*Brazoria County Municipal Utility District No. 26
 TSI-5. Long-Term Debt Service Requirements
 Series 2006--by Years
 September 30, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 575,000	\$ 238,630	\$ 813,630
2020	595,000	213,905	808,905
2021	620,000	187,725	807,725
2022	655,000	160,445	815,445
2023	685,000	131,625	816,625
2024	715,000	100,800	815,800
2025	745,000	68,625	813,625
2026	780,000	35,100	815,100
	<u>\$ 5,370,000</u>	<u>\$ 1,136,855</u>	<u>\$ 6,506,855</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-5. Long-Term Debt Service Requirements
Series 2009--by Years
September 30, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 170,000	\$ 31,725	\$ 201,725
2020	175,000	24,075	199,075
2021	180,000	16,200	196,200
2022	180,000	8,100	188,100
	<u>\$ 705,000</u>	<u>\$ 80,100</u>	<u>\$ 785,100</u>

See accompanying auditors' report.

*Brazoria County Municipal Utility District No. 26
 TSI-5. Long-Term Debt Service Requirements
 Series 2011--by Years
 September 30, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
<u>2019</u>	<u>\$ 500,000</u>	<u>\$ 15,000</u>	<u>\$ 515,000</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-5. Long-Term Debt Service Requirements
Series 2012 Refunding--by Years
September 30, 2018

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 570,000	\$ 248,800	\$ 818,800
2020	595,000	226,000	821,000
2021	625,000	202,200	827,200
2022	660,000	177,200	837,200
2023	690,000	150,800	840,800
2024	725,000	123,200	848,200
2025	750,000	94,200	844,200
2026	785,000	64,200	849,200
2027	820,000	32,800	852,800
	<u>\$ 6,220,000</u>	<u>\$ 1,319,400</u>	<u>\$ 7,539,400</u>

See accompanying auditors' report.

*Brazoria County Municipal Utility District No. 26
 TSI-5. Long-Term Debt Service Requirements
 Series 2013 Refunding--by Years
 September 30, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
<u>2019</u>	<u>\$ 620,000</u>	<u>\$ 18,600</u>	<u>\$ 638,600</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
September 30, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 395,000	\$ 122,700	\$ 517,700
2020	1,565,000	114,800	1,679,800
2021	1,635,000	83,500	1,718,500
2022	1,705,000	42,625	1,747,625
	<u>\$ 5,300,000</u>	<u>\$ 363,625</u>	<u>\$ 5,663,625</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
September 30, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 1,425,000	\$ 21,375	\$ 1,446,375

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
September 30, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 4,795,000	\$ 887,936	\$ 5,682,936
2020	3,500,000	746,938	4,246,938
2021	3,655,000	633,273	4,288,273
2022	3,815,000	506,134	4,321,134
2023	2,020,000	373,131	2,393,131
2024	2,115,000	286,324	2,401,324
2025	2,205,000	194,775	2,399,775
2026	1,565,000	99,300	1,664,300
2027	820,000	32,800	852,800
	<u>\$ 24,490,000</u>	<u>\$ 3,760,611</u>	<u>\$ 28,250,611</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 26
TSI-6. Change in Long-Term Bonded Debt
September 30, 2018

	Bond Issue			
	Series 2005	Series 2006	Series 2009	Series 2011
Interest rate	4.0% - 4.5%	4.0% - 4.6%	4.5% - 5.5%	2.0% - 3.0%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/06 - 9/1/25	9/1/07 - 9/1/30	9/1/11 - 9/1/22	9/1/12 - 9/1/19
Beginning bonds outstanding	\$ 4,870,000	\$ 9,415,000	\$ 875,000	\$ 975,000
Bonds retired	(520,000)	(550,000)	(170,000)	(475,000)
Bonds defeased		(3,495,000)		
Ending bonds outstanding	<u>\$ 4,350,000</u>	<u>\$ 5,370,000</u>	<u>\$ 705,000</u>	<u>\$ 500,000</u>
Interest paid during fiscal year	<u>\$ 212,558</u>	<u>\$ 294,777</u>	<u>\$ 39,375</u>	<u>\$ 28,063</u>
Paying agent's name and city				
Series 2005, 2006, 2009, 2011, 2012R, 2013R	<u>Wells Fargo Bank, N.A., Dallas, Texas</u>			
Series 2014 and 2016	<u>Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Refunding Bonds		
Amount Authorized by Voters	\$ 108,300,000	\$ 72,200,000		
Amount Issued	(74,780,000)			
Remaining To Be Issued	<u>\$ 33,520,000</u>	<u>\$ 72,200,000</u>		

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of September 30, 2018:	<u>\$ 4,398,764</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 3,138,957</u>

See accompanying auditors' report.

Bond Issue

Series 2012 Refunding	Series 2013 Refunding	Series 2014	Series 2016	Totals
2.0% - 4.0%	2.0% - 3.0%	1.0% - 2.5%	1.0% - 1.5%	
3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	
9/1/13 - 9/1/27	9/1/13 - 9/1/19	9/1/16 - 9/1/22	9/1/17 - 9/1/19	
\$ 6,765,000	\$ 1,220,000	\$ 5,690,000	\$ 2,775,000	\$ 32,585,000
(545,000)	(600,000)	(390,000)	(1,350,000)	(4,600,000)
				(3,495,000)
<u>\$ 6,220,000</u>	<u>\$ 620,000</u>	<u>\$ 5,300,000</u>	<u>\$ 1,425,000</u>	<u>\$ 24,490,000</u>
<u>\$ 270,600</u>	<u>\$ 36,600</u>	<u>\$ 130,500</u>	<u>\$ 38,250</u>	<u>\$ 1,050,722</u>

Brazoria County Municipal Utility District No. 26
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 314,254	\$ 283,300	\$ 252,426	\$ 235,303	\$ 215,005
City of Pearland rebates	307,758	289,843	295,799	273,664	271,085
Security services	29,721	27,863	29,968	29,065	19,373
Miscellaneous			22		
Investment earnings	13,798	3,116	940	3,535	4,036
Total Revenues	<u>665,531</u>	<u>604,122</u>	<u>579,155</u>	<u>541,567</u>	<u>509,499</u>
Expenditures					
Operating and administrative					
Professional fees	226,257	163,464	140,047	236,675	235,685
Contracted services	90,022	86,273	82,040	82,311	65,431
Repairs and maintenance	5,656	7,245	10,371	2,780	
Administrative	78,623	40,222	43,984	38,185	40,347
Other	100	100			
Capital outlay				129,425	19,538
Debt service					
Interest and fees				1,340	
Early extinguishment of debt				745,000	
Intergovernmental				685,000	
Total Expenditures	<u>400,658</u>	<u>297,304</u>	<u>276,442</u>	<u>1,920,716</u>	<u>361,001</u>
Revenues Over/(Under) Expenditures	<u>\$ 264,873</u>	<u>\$ 306,818</u>	<u>\$ 302,713</u>	<u>\$ (1,379,149)</u>	<u>\$ 148,498</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
49%	47%	44%	43%	42%
45%	47%	51%	51%	53%
4%	5%	5%	5%	4%
		*		
2%	1%	*	1%	1%
100%	100%	100%	100%	100%
34%	27%	24%	44%	46%
14%	14%	14%	15%	13%
1%	1%	2%	1%	
12%	7%	8%	7%	8%
*	*			
			24%	4%
			*	
			138%	
			126%	
61%	49%	48%	355%	71%
39%	51%	52%	(255%)	29%

Brazoria County Municipal Utility District No. 26

**TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years**

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 6,905,551	\$ 6,233,108	\$ 5,553,527	\$ 5,174,867	\$ 4,730,014
Penalties and interest	56,334	43,099	34,665	27,190	19,017
City of Pearland rebates	1,227,737	1,198,373	924,271	935,389	864,610
Accrued interest on bonds sold					3,558
Miscellaneous				10,460	763
Investment earnings	93,048	29,888	20,011	12,197	10,159
Total Revenues	<u>8,282,670</u>	<u>7,504,468</u>	<u>6,532,474</u>	<u>6,160,103</u>	<u>5,628,121</u>
Expenditures					
Tax collection services	108,076	101,174	91,587	85,390	88,419
Other	5,000	5,000	7,500	15,010	7,380
Debt service					
Principal	4,600,000	4,485,000	3,030,000	2,535,000	2,425,000
Interest and fees	1,055,822	1,301,570	1,464,849	1,584,417	1,563,259
Debt issuance costs					
Early extinguishment of debt	3,495,000		1,980,000		2,000,000
Total Expenditures	<u>9,263,898</u>	<u>5,892,744</u>	<u>6,573,936</u>	<u>4,219,817</u>	<u>6,084,058</u>
Revenues Over (Under) Expenditures	<u>\$ (981,228)</u>	<u>\$ 1,611,724</u>	<u>\$ (41,462)</u>	<u>\$ 1,940,286</u>	<u>\$ (455,937)</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
83%	83%	85%	85%	85%
1%	1%	1%	*	*
15%	16%	14%	15%	15%
				*
			*	*
1%	*	*	*	*
100%	100%	100%	100%	100%
1%	1%	1%	1%	2%
*	*	*	*	*
56%	60%	46%	41%	43%
13%	17%	22%	26%	28%
42%		30%		36%
112%	78%	99%	68%	109%
(12%)	22%	1%	32%	(9%)

***Brazoria County Municipal Utility District No. 26
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2018***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): May 14, 2018
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Caralynn Prade	5/18 to 5/22	\$ 3,300	\$ 2,453	President
Melissa Slade	5/16 to 5/20	2,250	1,391	Vice President
Fred Weary	5/16 to 5/20	2,850	3,897	Assistant Vice President
Ed Mears	5/18 to 5/22	1,050	812	Secretary
Marie Ferguson	5/18 to 5/22	1,500	1,919	Assistant Secretary
Michael Parks	5/14 to 1/18	750	35	Former Director
Herbert Fain, Jr.	5/14 to 5/18	1,350	246	Former Director
Jason Harrison	3/18 to 5/18	900	93	Former Director
Consultants				
		<u>Paid</u>		
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	6/03	\$ 169,406		Attorney
Myrtle Cruz, Inc.	2/11	28,086		Bookkeeper
Assessments of the Southwest, Inc.	3/02	39,081		Tax Collector
Brazoria County Appraisal District	Legislation	49,489		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	3/02	15,701		Delinquent Tax Attorney
LJA Engineering, Inc.	3/02	46,107		Engineer
McGrath & Co., PLLC	9/13	11,500		Auditor
Rathmann and Associates, LP	3/02			Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

See accompanying auditors' report.