

Laguna Madre Water District

FINANCIAL STATEMENTS And SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended September 30, 2017



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INGRAM

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Laguna Madre Water District
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September 30, 2017

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INTRODUCTORY SECTION



**Laguna Madre Water District
Organizational Chart**

Board Members

Scott D. Friedman
Rick Wells
Doyle Wells
Herb Houston
Alex Avalos

Chairman
Vice Chairman
Secretary
Director
Director

Administration

Carlos Galvan, Jr.
Robert Gomez
Charles Ortiz, P.E.

General Manager
Interim Director of Finance
District Engineer

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF CAMERON

I, _____ of the

(Name of Duty Authorized District Representative)

_____ hereby

(Name of District)

Swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the ____ day of _____, 2018, its annual audit report for the Twelve-Month Period ended _____ and that copies of the annual audit report have been filed in the district office, located at:

(Address of District)

The filing affidavit and the attached copy of the annual audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements Texas Water Code Section 49.194.

Date: _____, 2018 By: _____

(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this ____ day of _____, 2018.

(Signature of Notary)

My Commission Expires on: _____, Notary Public in the State of Texas.



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Laguna Madre Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Laguna Madre Water District ("District") as of and for the year ended September 30, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 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, budgetary comparison information, schedule of changes in the employer's net pension liability and related ratios, and schedule of employer contributions on pages 6-17 and 49 through 52 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information, Texas Supplementary Information section, and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information and Texas supplementary information sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and Texas supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Casey Riggs & Ingram, L.L.C.

Brownsville, Texas
April 10, 2018

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MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Laguna Madre Water District's (District) annual financial report presents our discussion and analysis of the District's financial performance for the fiscal year ended September 30, 2017. The MD&A should be read in conjunction with the District's financial statements which follow this section.

Financial Highlights

- In the Government-Wide Statement of Net Position, the total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources for the fiscal year ended September 30, 2017, by \$68,094,265. Of this amount \$8,791,545 (considered unrestricted) may be used to meet the District's ongoing obligations to citizens and creditors. The net investment in capital assets of the District is \$56,218,039.
- The restricted portion of the Government-Wide net position includes the debt service payment amounts of \$3,084,681 due fiscal year 2017-18.
- The fund balance in the General Fund increased by \$49,553. The ending fund balance for the fiscal year ended September 30, 2017, was \$6,317,365. The combined General Fund and Emergency fund balances are \$8,348,834.
- For the fiscal year ended September 30, 2017, the District's fund balances reported a combined ending fund balance of \$18,954,314.

Overview of the Financial Statements

This annual report consists of the management's discussion and analysis (this section), the basic financial statements, notes to the basic financial statements, required supplementary information, supplementary information, Texas supplementary information (TSI) section and other information section.

The basic financial statements are comprised of three components:

- The *government-wide financial statements* provide both long-term and short-term information about the District's overall financial status. These statements are presented for governmental activities, the only activity of the District. They are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.
- The *statement of net position* presents information on all of the District's assets and liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Laguna Madre Water District Management's Discussion & Analysis

- The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The fund financial statements focus on individual parts of the District, reporting the District's operation in greater detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

- The governmental funds statements show how general government services were financed in the short-term as well as what remains for future spending. The District considers these funds as major: General Fund, Debt Service Fund, Emergency Services Fund, and Capital Projects fund.

Additional Information Regarding the District's Fund Financial Statements:

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

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

The District adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison statements have been provided for the general and debt service fund.

The District's basic financial statements can be found on pages 18-21.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-48 of this report.

Laguna Madre Water District Management's Discussion & Analysis

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's general fund budgetary schedule, schedule of changes in employer's net pension liability and related ratios, as well as the schedule of employer contributions. Required supplementary information can be found on pages 49-52 of this report.

Other Supplementary Information, Texas Supplementary Information (TSI) Section and Other Information Section

The District also provides other supplementary information concerning the District's debt service fund budgetary schedule, Texas Supplementary Information schedules as required by the Texas Commission on Environmental Quality, and other information deemed appropriate. The other supplementary information, the TSI, and other information can be found on pages 53-71 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of the District's financial position. At September 30, 2017, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$68,094,265. By far, the largest portion of the District's net position (82.6%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide services to its citizens and therefore these assets are not available for future spending. Although the District's investment in these capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$3,084,681 (4.6%), represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net position, totaling \$8,791,545 may be used to meet the District's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balance in all reported categories of net position, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

**Laguna Madre Water District
Management's Discussion & Analysis**

**Exhibit 1
Laguna Madre Water District
Governmental Activities – Net Position
September 30,**

	2017	2016
Current and other assets	\$ 20,559,646	\$ 18,956,580
Capital assets	76,697,405	72,472,922
Total assets	97,257,051	91,429,502
Total deferred outflows of resources	1,126,246	1,302,655
Long-term liabilities outstanding	28,401,947	24,119,747
Other liabilities	1,666,331	1,029,839
Total liabilities	30,068,278	25,149,586
Total deferred inflows of resources	220,754	210,091
Net position		
Net Investment in capital assets	56,218,039	56,700,141
Restricted	3,084,681	2,896,569
Unrestricted	8,791,545	7,775,770
Total net position	\$ 68,094,265	\$ 67,372,480

Governmental Activities

During the current fiscal year, net position for governmental activities increased by \$721,785. As indicated in Exhibit 2 charges for services comprised 84.3% and property taxes comprised 13.1% of all revenues. Service operations comprised 66.3% of all expenses; interest on long-term debt, 8.9%; and depreciation expense, 24.8%.

Laguna Madre Water District Management's Discussion & Analysis

Exhibit 2 Laguna Madre Water District Governmental Activities – Changes in Net Position For the Fiscal Year Ended September 30,

	2017	2016
Revenues:		
Program Revenues		
Charges for services	\$ 9,550,739	\$ 8,893,905
Intergovernmental	-	11,148
General Revenues		
Property taxes	1,486,069	1,481,825
Investment earnings	132,361	51,789
Other	154,452	352,824
Total revenue	11,323,621	10,791,491
Expenses		
Service operations	7,025,455	6,734,599
Interest on long-term debt and fiscal expense	945,387	752,361
Depreciation expense	2,630,994	2,578,596
Total expenses	10,601,836	10,065,556
Increase in net position	721,785	725,935
Net Position, Beginning	67,372,480	66,646,545
Net Position, Ending Restated	68,094,265	\$ 67,372,480

Financial Analysis of the District's Funds

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

Governmental Funds

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

Laguna Madre Water District Management's Discussion & Analysis

At September 30, 2017, the District's governmental funds reported combined ending fund balances of \$18,954,314, an increase of \$984,736 in comparison with the prior year. Approximately 26.4% of this amount (\$5,000,420) constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form (\$577,957), 2) restricted for particular purposes (\$9,699,404), 3) committed for particular purposes (\$2,341,101), 4) assigned for particular purposes (\$1,335,432).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,000,420, while total fund balance increased to \$6,317,365. The fund balance of the District's general fund increased by \$49,553 primarily due to an increase in water and sewer service rates charged to customers.

As shown in Exhibit 3 below the District has maintained healthy fund balances in its general fund for several consecutive fiscal years.

Exhibit 3
Fund Balance of the General Fund

Fiscal Year	Revenues	Expenditures Plus Transfers Out	Fund Balance	Percentage of Fund Balance In Relation to Revenues	Percentage of Fund Balance In Relation to Expenditures Plus Transfer Out
April					
2008	8,237,727	6,632,006	6,273,270	76.2%	94.6%
2009	7,174,800	8,474,029	5,239,329	73.0%	61.8%
2010	7,443,217	7,387,754	4,511,569	60.6%	61.0%
2011	8,100,426	7,466,198	5,087,406	62.8%	68.1%
2012	8,268,463	7,151,218	6,284,270	76.0%	87.9%
2013	8,738,728	10,335,855	4,697,639	53.8%	45.4%
September					
2013*	\$ 3,813,789	\$ 3,137,960	\$ 5,373,468	140.9%	171.2%
2014	7,459,276	7,345,323	5,487,421	73.5%	74.7%
2015	8,022,892	7,743,486	5,771,327	71.9%	74.5%
2016	9,259,450	8,864,410	6,267,812	67.7%	70.7%
2017	9,738,484	9,695,592	6,317,365	64.9%	65.2%

*Results are based on a 5-month period. During 2013 the District changed to a September 30 fiscal year end.

**Laguna Madre Water District
Management's Discussion & Analysis**

**Exhibit 4
Laguna Madre Water District
General Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended September 30,**

	2017	2016
Revenues		
Water services	\$ 5,481,245	\$ 5,060,601
Wastewater services	3,713,416	3,496,971
Other water sales	134,503	124,459
Penalties and interest	58,683	76,976
Tap fees	162,892	134,898
Investment earnings	33,305	14,836
Miscellaneous	154,440	350,709
Total revenues	9,738,484	9,259,450
Expenditures		
Service operation	6,687,027	6,591,948
Lease principal	11,480	13,329
Lease interest	2,694	844
Capital outlay	206,388	417,400
Total expenditures	6,907,589	7,023,521
Excess (Deficiency) of Revenues Over (under) Expenditures	2,830,895	2,235,929
Other Financing Sources (Uses)		
Proceeds from sale of assets	-	-
Capital lease proceeds	-	101,445
Transfer from other funds	6,661	-
Transfer to other funds	(2,788,003)	(1,840,889)
Total other financing sources	(2,781,342)	(1,739,444)
Net Change in Fund Balances	49,553	496,485
Fund Balance Beginning,	6,267,812	5,771,327
Fund Balance Ending	\$ 6,317,365	\$ 6,267,812

**Laguna Madre Water District
Management's Discussion & Analysis**

**Exhibit 5
Laguna Madre Water District
Debt Service Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended September 30,**

	2017	2016
Revenues		
Property taxes and penalties/interest	\$ 1,503,967	\$ 1,516,509
Investment earnings	19,365	7,062
Miscellaneous	12	2,115
Total revenues	1,523,344	1,525,686
Expenditures		
Bond principal	1,565,000	1,280,000
Bond interest and fiscal agent fees	714,584	659,105
Contracted services	54,432	51,600
Other	-	6,639
Total expenditures	2,334,016	1,997,344
Excess (Deficiency) of Revenues Over (under) Expenditures	(810,672)	(471,658)
Other Financing Sources (Uses)		
Transfer from other funds	932,626	621,447
Transfer to other funds	(6,661)	-
Total other financing sources	925,965	621,447
Net Change in Fund Balances	115,293	149,789
Fund Balance Beginning	2,896,569	2,746,780
Fund Balance Ending	\$ 3,011,862	\$ 2,896,569

As shown in Exhibit 5 above, the debt service fund for the fiscal year ended September 30, 2017, had a fund balance of \$3,011,862; this amount represented an increase of \$115,293 compared to prior year. The total debt service fund balance is restricted for payment of debt service. The District's ad valorem tax rate during fiscal year 2017 was \$0.045020 per \$100 valuation.

**Laguna Madre Water District
Management's Discussion & Analysis**

**Exhibit 6
Laguna Madre Water District
Capital Projects Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended September 30,**

	2017	2016
Revenues		
Intergovernmental	\$ -	\$ 11,148
Investment Earnings	62,009	23,212
Total revenues	62,009	34,360
Expenditures		
Other	-	142
Capital Outlay	6,702,033	3,020,762
Bond issuance costs	228,145	68,668
Total expenditures	6,930,178	3,089,572
Excess (Deficiency) of Revenues Over (under) Expenditures	(6,868,169)	(3,055,212)
Other Financing Sources (Uses)		
Issuance of Debt	5,815,000	2,580,000
Transfer from Other Funds	1,855,377	1,219,442
Total other financing sources	7,670,377	3,799,442
Net Change in Fund Balances	802,208	744,230
Fund Balance Beginning,	6,791,410	6,047,180
Fund Balance Ending	\$7,593,618	\$ 6,791,410

General Fund Budgetary Highlights

For the fiscal year ended September 30, 2017, the District passed its General Fund expenditure budget of \$10,134,969. The budget consisted of current revenue and funds carried forward from the Water System Development Funds of \$280,763 and \$65,982 in funds from the Sewer System Development Charges. These prior year funds were earned for water and sewer taps. The money was used to improve our water and sewer infrastructure and subsequently transferred to the Capital Projects Fund.

**Laguna Madre Water District
Management's Discussion & Analysis**

Capital Asset and Debt Administration

The District's investment in capital assets for its governmental activities as shown in Exhibit 7 as of September 30, 2017, amounts to \$76,697,405. The net increase in capital assets for the fiscal year ended September 30, 2017 was \$4,224,483.

Major Projects ---General Fund

- The District continues to administer meter testing programs to ensure the consumption for the larger size (4", 6", and 8") commercial meter is accurate. Meters held in inventory were used to repair and replace inaccurate meters.

Major Projects---Capital Projects Fund

- Water Distribution improvements were made at accumulative cost of \$1,477,974,
- Additional improvements to the Microfiltration at Water Plant #2 at Laguna Vista were made at a cost of \$268,305.
- Wastewater Collection Lines and Replacement Project totaled \$1,093,679.
- Rehabilitation of Water Tank was \$74,850 and Gulf Blvd Waterline addition of \$341,611
- Other water Infrastructure Rehabilitation totaled to \$226,765 and Sewer Infrastructure Rehabilitation totaled \$120,383.
- The District purchased and constructed a metal storage facility for its vehicles.

The depreciation expense for the year ended September 30, 2017 for the governmental activities totaled \$2,630,994.

Exhibit 7
Laguna Madre Water District
Capital Assets
(Net of depreciation)
For the Fiscal Year Ended September 30,

	2017	2016
Land	\$ 1,411,177	\$ 1,302,714
Construction in progress	7,290,292	4,660,157
Buildings and improvements	3,389,103	3,437,922
Improvements other than buildings	7,880,992	8,069,439
Machinery and equipment	732,139	648,344
Infrastructure	55,993,702	54,354,346
Total	\$ 76,697,405	\$ 72,472,922

Additional information on the District's capital assets can be found in Note 6 on page 37 of this report.

Laguna Madre Water District Management's Discussion & Analysis

Long-Term Debt

At September 30, 2017, the District's total bonded debt was \$26,334,650. Of this amount, \$15,190,000 is considered to be tax supported debt and \$10,895,000 are considered revenue notes. The revenue bonds did not require a bond rating.

Exhibit 8 shows the District's outstanding long-term debt as of September 30, 2017.

Additional information on the District's long-term debt can be found in Note 7 on pages 37-39 of this report.

Exhibit 8
Laguna Madre Water District
Long-Term Liabilities
For the Fiscal Year Ended September 30,

	2017	2016
General obligation tax bonds	\$ 15,190,000	\$ 16,010,000
Revenue bonds	10,895,000	5,825,000
Plus: Unamortized premium	249,650	266,294
Total bonds payable	26,334,650	22,101,294
Compensated absences	74,915	69,051
Lease payable	76,636	88,116
Net pension liability	1,915,746	1,861,286
Total long-term liabilities	\$ 28,401,947	\$ 24,119,747

Bond Ratings

The District maintains the following general obligation and revenue bond credit ratings:

	Moody's Investors Service	Standard & Poor's
General obligation bonds	Aa2	A+
Revenue Bonds	N/A	N/A

Request for Information

This financial report is to provide the District directors, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the District's financial condition and to demonstrate the District's accountability for the funds it receives.

If you have any questions regarding this report or need additional information, please contact:

Laguna Madre Water District
Robert Gomez, Interim Finance Director
105 Port Road
Port Isabel, Texas 78578

Phone Number: 956.943.2626
Fax Number: 956.943.6662
E-mail: rgomez@lmwd.org
Web Page: lmwd.org

A large orange rectangular area with a subtle geometric pattern of overlapping triangles and lines in various shades of orange and red. The pattern is most prominent on the left side and fades towards the right.

BASIC FINANCIAL STATEMENTS

Laguna Madre Water District
Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2017	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
Assets							
Cash and cash equivalents	\$ 5,008,294	\$ -	\$ -	\$ 1,335,432	\$ 6,343,726	\$ -	\$ 6,343,726 ✓
Receivables, (net):							
Taxes	-	-	119,481	-	119,481	-	119,481
Accounts	639,138	-	-	575,916	1,215,054	-	1,215,054
Miscellaneous	58,256	-	-	-	58,256	-	58,256
Inventories	423,751	-	-	-	423,751	-	423,751
Prepaid expenses	154,206	-	-	-	154,206	-	154,206
Restricted assets:							
Cash and cash equivalents	738,988	2,031,469	2,965,200	2,435,027	8,170,684	-	8,170,684 ✓
Certificates of deposit	-	-	-	4,023,415	4,023,415	-	4,023,415 ✓
Capital assets not being depreciated:							
Land	-	-	-	-	-	1,411,177	1,411,177
Construction in progress	-	-	-	-	-	7,290,292	7,290,292
Capital assets net of accumulated depreciation:							
Buildings and improvements	-	-	-	-	-	3,389,103	3,389,103
Improvements other than buildings	-	-	-	-	-	7,880,992	7,880,992
Personal property	-	-	-	-	-	732,139	732,139
Infrastructure	-	-	-	-	-	55,993,702	55,993,702
Bond insurance	-	-	-	-	-	51,073	51,073
Total Assets	7,022,633	2,031,469	3,084,681	8,369,790	20,508,573	76,748,478	97,257,051 ✓
Deferred Outflows of Resources							
Deferred charge on refunding	-	-	-	-	-	155,265	155,265
Deferred outflows related to pension	-	-	-	-	-	970,981	970,981
Total Deferred Outflows of Resources	-	-	-	-	-	1,126,246	1,126,246

September 30, 2017	Emergency			Debt		Capital		Adjustments (Note 2)	Statement of Net Position
	General Fund	Preparation and Recovery Fund	Service Fund	Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position		
Liabilities									
Accounts payable	123,731	-	-	547,129	670,860	-	-	-	670,860
Accrued payroll	107,512	-	-	-	107,512	-	-	-	107,512
Accrued expenses	46,357	-	-	-	46,357	-	-	-	46,357
Accrued interest	-	-	-	-	-	-	184,891	184,891	184,891
Retainage payable	-	-	-	229,043	229,043	-	-	-	229,043
Customer deposits	427,668	-	-	-	427,668	-	-	-	427,668
Long-term liabilities:									
Due within one year	-	-	-	-	-	-	1,601,855	1,601,855	1,601,855
Due in more than one year	-	-	-	-	-	-	24,884,346	24,884,346	24,884,346
Net pension liability	-	-	-	-	-	-	1,915,746	1,915,746	1,915,746
Total Liabilities	705,268	-	-	776,172	1,481,440	-	28,586,838	30,068,278	30,068,278
Deferred Inflows of Resources									
Unavailable tax revenue	-	-	72,819	-	72,819	-	(72,819)	-	-
Deferred inflows related to pension	-	-	-	-	-	-	220,754	220,754	220,754
Total Deferred Inflows of Resources	-	-	72,819	-	72,819	-	147,935	220,754	220,754
FUND BALANCE/NET POSITION									
Fund balances:									
Non-spendable:									
Prepaid items	154,206	-	-	-	154,206	-	(154,206)	-	-
Inventories	423,751	-	-	-	423,751	-	(423,751)	-	-
Restricted:									
Meter deposits	429,356	-	-	-	429,356	-	(429,356)	-	-
Debt service	-	-	3,011,862	-	3,011,862	-	(3,011,862)	-	-
Capital projects	-	-	-	6,258,186	6,258,186	-	(6,258,186)	-	-
Committed:									
Capital projects	309,632	-	-	-	309,632	-	(309,632)	-	-
Emergency reserve	-	2,031,469	-	-	2,031,469	-	(2,031,469)	-	-
Assigned:									
Capital projects	-	-	-	1,335,432	1,335,432	-	(1,335,432)	-	-
Unassigned	5,000,420	-	-	-	5,000,420	-	(5,000,420)	-	-
Total fund balances	6,317,365	2,031,469	3,011,862	7,593,618	18,954,314	-	(18,954,314)	-	-
Total liabilities, deferred inflows, and fund balances	\$ 7,022,633	\$ 2,031,469	\$ 3,084,681	\$ 8,369,790	\$ 20,508,573	\$ -	\$ -	\$ -	\$ -
Net Position (Government-wide):									
Net investment in capital assets							56,218,039	56,218,039	56,218,039
Restricted for:									
Debt service							3,084,681	3,084,681	3,084,681
Unrestricted							8,791,545	8,791,545	8,791,545
Total net position							\$ 68,094,265	\$ 68,094,265	\$ 68,094,265

The notes to the financial statements are an integral part of this statement

Laguna Madre Water District
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance

September 30, 2017	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Activities
Revenues:							
Water services	5,481,245	\$ -	\$ -	\$ -	\$ 5,481,245	-	\$ 5,481,245
Wastewater services	3,713,416	-	-	-	3,713,416	-	3,713,416
Other water sales	134,503	-	-	-	134,503	-	134,503
Late fees	58,683	-	-	-	58,683	-	58,683
Tap fees	162,892	-	-	-	162,892	-	162,892
Property taxes	-	-	1,473,558	-	1,473,558	(17,898)	1,455,660
Penalties and interest	-	-	30,409	-	30,409	-	30,409
Investment earnings	33,305	17,682	19,365	62,009	132,361	-	132,361
Other	154,440	-	12	-	154,452	-	154,452
Total revenues	9,738,484	17,682	1,523,344	62,009	11,341,519	(17,898)	11,323,621
Expenditures/expenses:							
Service operations:							
Administration	215,018	-	-	-	215,018	-	215,018
Contracted services	285,614	-	-	-	285,614	-	285,614
Insurance	161,757	-	-	-	161,757	-	161,757
Professional fees	337,497	-	-	-	337,497	-	337,497
Payroll and benefits	3,657,751	-	-	-	3,657,751	(354,217)	3,303,534
Net pension expense	-	-	-	-	-	585,269	585,269
Utilities	738,882	-	-	-	738,882	-	738,882
Materials and supplies	955,147	-	-	-	955,147	-	955,147
Repairs and maintenance	275,616	-	-	-	275,616	-	275,616
Other	59,745	-	-	-	59,745	35,651	95,396
Capital outlay	206,388	-	-	6,702,033	6,908,421	(6,891,128)	17,293
Debt service:							
Principal	-	-	1,565,000	-	1,565,000	(1,565,000)	-
Lease principal	11,480	-	-	-	11,480	(11,480)	-
Interest and fiscal charges	2,694	-	714,584	-	717,278	(36)	717,242
Bond issuance costs	-	-	-	228,145	228,145	-	228,145
Contracted service	-	-	54,432	-	54,432	-	54,432
Depreciation	-	-	-	-	-	2,630,994	2,630,994
Total expenditures/expenses	6,907,589	-	2,334,016	6,930,178	16,171,783	(5,569,947)	10,601,836
Excess (deficiency) of revenues over expenditures	2,830,895	17,682	(810,672)	(6,868,169)	(4,830,264)	5,552,049	721,785

September 30, 2017	Emergency			Debt Service Fund	Capital Projects Fund		Adjustments (Note 2)	Statement of Activities
	General Fund	Preparation and Recovery Fund				Total		
Other financing sources/(uses):								
Issuance of debt	-	-	-	-	5,815,000	-	(5,815,000)	-
Transfers In	6,661	-	932,626	-	1,855,377	-	(2,794,664)	-
Transfers Out	(2,788,003)	-	(6,661)	-	-	-	2,794,664	-
Net other financing sources/(uses)	(2,781,342)	-	925,965	-	7,670,377	-	(5,815,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses								
	49,553	17,682	115,293	-	802,208	-	(984,736)	721,785
Change in net position					984,736		721,785	
Fund balance/net position:								
Beginning of the year	6,267,812	2,013,787	2,896,569	-	6,791,410	-	49,402,902	67,372,480
End of the year	\$ 6,317,365	\$ 2,031,469	\$ 3,011,862	\$ -	\$ 7,593,618	\$ 18,954,314	\$ 49,139,951	\$ 68,094,265

The notes to the financial statements are an integral part of this statement

Laguna Madre Water District Notes to Financial Statements

The financial statements of the Laguna Madre Water District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board ("GASB") is the accepted standard-setting body for established governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Laguna Madre Water District was organized on October 10, 1973 to create a municipal utility district, and is governed by a five-member Board of Directors. The District is governed pursuant to provisions of the Texas Commission on Environmental Quality. Service areas include Port Isabel, South Padre Island and Laguna Vista, Texas, and surrounding areas. The District was established for the purpose of providing water and wastewater services to its residents and taxpayers.

The District follows GASB accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. As a result of applying the component unit definition criteria in GASB Statement No. 14 and as amended by GASB Statement No. 61, the District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Basis of Presentation - Government-wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts which are segregated for the purpose of accounting for specific activities. The District uses funds to report results of operations and financial position, and demonstrate compliance with legal, contractual and regulatory requirements.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The *emergency preparation and recovery fund* is used for preparing for and recovering from man-made or natural disasters or emergencies.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-wide and Fund Financial Statements (Continued)

- The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.
- The *capital projects fund* accounts for the acquisition or construction of the District's major capital facilities.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payments are due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and debt service funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

The appropriated budget is prepared by department. The District's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the General Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriate is utilized in the governmental funds.

Cash and Cash Equivalents

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The District's investing activity is governed by Texas Government Code Chapter 2256, The Public Funds Investment Act (the "Act"). The Act authorizes the District to invest in obligations of the United States or its agencies and instrumentalities, certificates of deposit, money market mutual funds, and State and local government investment pools. The Act requires the District to adopt and implement an investment policy on an annual basis that addresses (1) safety of principal and liquidity and (2) investment diversification, yield, and maturity and the quality and capability of investment management.

The District's management believes it has substantially complied with the requirements of the Act and the District's investment policy.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first out ("FIFO") method and consist of materials, meters and expendable supplies. The cost of such inventories is recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

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

Property Taxes

Property taxes are levied each October 1st on the basis of assessed values and are due upon receipt of the tax bill. Taxes become delinquent February 1st of the following year at which time penalties and interest are applicable. Discounts of 3%, 2%, and 1% are granted for payments received in October, November, and December, respectively. Liens for unpaid taxes go into effect on July 1st of the year taxes become delinquent.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items) are reported in the applicable governmental activities columns in the governmental-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

Asset Class	Estimated Useful Lives
Buildings	40
Improvements other than buildings	20
Furniture and fixtures	10
Equipment	10
Motor vehicles	8
Water and wastewater plant in service	50
Infrastructure	50

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

Net Position Flow Assumption

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

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

Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The nonspendable fund balance classification includes amount that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

The restricted fund balance includes resources that can be spent only for specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the District's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors has by resolution authorized the General Manager and Director of Finance to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for the repayment of revenue and general obligation bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The Debt Service Funds restricted assets consist of the following items:

Cash and cash equivalents	\$ 2,965,200
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**Laguna Madre Water District
Notes to Financial Statements**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets (Continued)

The Capital Projects Funds restricted assets consist of the following items:

Cash and cash equivalents	\$ 2,435,027
Certificates of deposit	4,023,415
Total restricted assets	6,458,442

Pensions

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

Deferred outflows/inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. One item is a deferred outflow related to a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pension reported in the government-wide statement of net position rise from amounts permitted to be recognized as part of pension expense over a period of years. These expenses are related to differences between expected and actual plan experience, changes in assumptions, differences between projected and actual investments earnings, and employer contributions made subsequent to the measurement date through the District's year end. The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will recognized as a reduction of the net pension liability in the next fiscal year. Deferred outflows of resources related to pensions resulting from differences between projected and actual investments earnings are recognized in pension expense over a period of five years. Other pension related deferred outflows are recognized in pension expense over the remaining service life for all active, inactive, and retired members.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows/inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is recognized as an inflow of resources in the period that the amount becomes available. Deferred inflows related to pensions reported in the government-wide statement of net position result from differences between expected and actual plan experience. The deferred inflows of resources related to pension are recognized in pension expense over the average remaining service life for all active, inactive, and retired members.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

Accumulated sick leave lapses when employees leave the employ of the District and, upon separation from service, no monetary obligation exists.

Deferred Compensation Plan

The District offers a separate deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees permits them to defer a portion of their salary, until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Amendments to the laws governing Section 457 Deferred Compensation Plans substantially became effective January 1, 1997. The District approved plan amendments such that plan assets are held in trust, with Nationwide Retirement Solutions and ING Aetna Life Insurance and Annuity Company as trustees, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose.

The District does not have legal access to the resources of the deferred compensation plan; as such the plan is not reported in the District's financial statements.

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Discounts/Bond Premiums/Issuance Costs

In governmental fund types, bond discounts, bond premiums and issuance costs are recognized in the current period. At the government wide level, bond discounts and premiums are netted against bonds payable and are amortized over the term of the bond.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the governmental-wide statement of net assets

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances – governmental funds (pages 18-19)	\$ 18,954,314
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	76,697,405
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	72,819
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore are not reported in the funds.	(27,630,273)
Net position of governmental activities (pages 18-19)	\$ 68,094,265

One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$76,697,405 are as follows:

Land	\$ 1,411,177
Construction in progress	7,290,292
Buildings and improvements, net	3,389,103
Improvements other than buildings, net	7,880,992
Personal property with UAC > \$5,000, net	732,139
Infrastructural, net	55,993,702
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ 76,697,405

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of certain differences between the governmental fund balance sheet and the governmental-wide statement of net position (Continued)

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(27,630,273) difference are as follows:

General obligation bonds payable	\$ (21,005,000)
Revenue bonds payable	(5,080,000)
Deferred charge on refunding (to be amortized as interest expense)	155,265
Capital lease payable	(76,636)
Bond insurance (to be amortized over life of debt)	51,073
Issuance premiums (to be amortized as interest expense)	(249,650)
Accrued interest payable	(184,891)
Compensated absences	(74,915)
Net pension liability	(1,915,746)
Deferred outflows related to pensions (to be amortized as net pension expense)	970,981
Deferred inflows related to pensions (to be amortized as net pension expense)	(220,754)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i>	
to arrive at <i>net position – governmental activities</i>	\$ (27,630,273)

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**Laguna Madre Water District
Notes to Financial Statements**

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds (pages 20-21)	\$	984,736
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		4,260,134
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(35,651)
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Contributions to the pension plan in the current fiscal year are not included in the statement of activities.		360,081
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(17,898)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental fund, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effects on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(4,238,520)
--	--	-------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(591,097)
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Change in net position of governmental activities (page 20-21)	\$	721,785
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NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statements of activities (Continued)

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$4,260,134 difference are as follows:

Capital outlay	\$ 6,891,128
Depreciation expense	(2,630,994)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ 4,260,134

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount \$4,238,520, is the net effect of these differences in the treatment of long-term debt and related items.” The details of the \$4,238,520 difference are as follows:

Debt issued or incurred:	
General obligation bond	\$ 5,815,000
Principal repayments:	
General obligation bonds	(820,000)
Revenue bonds	(745,000)
Capital lease	(11,480)
<hr/>	
Net adjustment to decrease <i>changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 4,238,520

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statements of activities (Continued)

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$591,097 difference are as follows:

Compensated absences	\$	5,864
Accrued interest		(3,141)
Net pension expense		585,269
Amortization of deferred charge on refunding		16,344
Amortization of bond premiums		(16,644)
Amortization of bond insurance		3,405
<hr/>		
Net adjustment to decrease <i>changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities</i>	\$	591,097

NOTE 3: LEGAL COMPLIANCE

Budget

1. As required by the Texas Water Code, the General Manager submits to the Board of Directors the proposed executive budgets for the fiscal year prior to the beginning of such fiscal year.
2. Budget Workshops are conducted to obtain rate payers comments.
3. The original amount appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriate budget resolutions by the Board of Directors. The original annual appropriated budgets are adopted by resolution by the Board of Directors prior to the beginning of the fiscal year as required by state law. The final annual amended appropriated budgets are shown in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.
4. The General Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the overall total of appropriated expenditures of any fund must be approved by the Board of Directors. During the year, the budget was amended three times.
5. Appropriations lapse at the end of each fiscal year.

A Budget is not prepared for the Capital Projects fund since funds are budgeted over the life of the respective project and not on an annual basis.

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2017 are classified in the accompanying financial statements as follows:

Unrestricted – cash and cash equivalents	\$	6,343,726
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Restricted deposits and investments as of September 30, 2017 consist of the following:

Restricted – cash and cash equivalents	\$	8,170,684
Restricted – investments (certificates of deposit)		4,023,415
Total	\$	12,194,099

Investments Authorized by District Investment Policy – The table below identifies the investment types that are authorized for the District by its investment policy. The table also identifies certain provision of the District’s investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	2 years	None	None
Local Government Investment Pools	2 years	None	None
Money Market Funds	2 years	None	None
Time Certificates of Deposit	2 years	None	None

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The investment policy of the District states that, to the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. Unless matched to a specific cash flow requirement, the District will not invest in securities maturing more than two years from the date of purchase. In addition, the District will invest operating funds primarily in financial institution deposits, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds. The District will also diversify maturities and stagger maturity dates to minimize the impact of market movements over time.

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. U.S. Treasury securities are not considered to have credit risk exposure.

Concentration of Credit Risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Bank balances are covered by Federal Depository Insurance Corporation (FDIC) insurance of \$250,000. Bank accounts in excess of FDIC insurance are covered with collateralized securities held by International Bank of Commerce in the District’s name. As of September 30, 2017, the District’s market value of pledged securities was \$14,405,498 and the bank deposits requiring collateral were \$12,677,827. The bank balances as of September 30, 2017 were fully insured by FDIC coverage and collateral pledged by financial institution.

NOTE 5: RECEIVABLES

Receivables at September 30, 2017 including the applicable allowance for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Total
Taxes	\$ -	\$ 126,630	\$ -	\$ 126,630
Accounts	647,502	-	4,978	652,480
Intergovernmental	-	-	570,938	570,938
Miscellaneous	58,256	-	-	58,256
Gross receivables	705,758	126,630	575,916	1,408,304
Less: Allowance for uncollectible	(8,364)	(7,149)	-	(15,513)
Net total receivables	\$ 697,394	\$ 119,481	575,916	\$ 1,392,791

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2017 was as follows:

	Balance 9/30/16	Additions	Retirements	Reclassifications	Balance 9/30/17
Government Activities:					
<i>Capital assets, not depreciated:</i>					
Land and easements	\$ 1,302,714	\$ 108,463	\$ -	\$ -	\$ 1,411,177
Construction in progress	4,660,157	6,558,191	(4,824)	(3,923,232)	7,290,292
Total capital assets, not depreciated	5,962,871	6,666,654	(4,824)	(3,923,232)	8,701,469
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	4,422,500	-	-	83,356	4,505,856
Improvements other than buildings	8,993,622	-	-	268,305	9,261,927
Personal property, UAC = > \$5,000	2,189,970	224,474	-	-	2,414,444
Infrastructure	95,857,962	-	(48,431)	3,571,571	99,381,102
Total capital assets, being depreciated	111,464,054	224,474	(48,431)	3,923,232	115,563,329
<i>Less accumulated depreciated for:</i>					
Buildings and improvements	(984,578)	(132,175)	-	-	(1,116,753)
Improvements other than buildings	(924,183)	(456,752)	-	-	(1,380,935)
Personal property, UAC = > \$5,000	(1,541,626)	(140,679)	-	-	(1,682,305)
Infrastructure	(41,503,616)	(1,901,388)	17,604	-	(43,387,400)
Total accumulated depreciation	(44,954,003)	(2,630,994)	17,604	-	(47,567,393)
Total capital assets, being depreciated, net	66,510,051	(2,406,520)	(30,827)	3,923,232	67,995,936
Governmental activities Capital assets, net	\$ 72,472,922	\$ 4,260,134	\$ (35,651)	\$ -	\$ 76,697,405

Depreciation expense for the fiscal year was \$2,630,994.

NOTE 7: LONG-TERM DEBT

Bonds Payable

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the District. The bonds are collateralized by and payable from the levy of a continuing direct annual ad valorem tax, without limit as to the rate or amount, upon all taxable property within the District. These bonds generally are issued as 25-year serial bonds with equal amounts of principal maturing each year. The District currently has two general obligation tax bond issues outstanding.

On May 15, 2012, the District issued \$21,170,000 Unlimited Tax Bonds, Series 2012 for the purpose of water distribution improvements, wastewater collection improvements, wastewater effluent reuse improvements, improvements to the Cuates pump station and pipeline, and improvements to Water Plant No. 2.

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 7: LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

On March 2, 2016, the District issued \$2,580,000 Unlimited Tax Bonds, Series 2016 for the purpose of water distribution improvements, wastewater collection improvements, wastewater effluent reuse improvements, improvements to the Cuates pump station, and pipeline and improvements to Water Plant No. 2.

On April 1, 2015, the District issued \$6,345,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. The proceeds were used to advance refund \$6,070,000 of outstanding 2007 Series Waterworks and Sewer System revenue bonds.

On October 16, 2016, the District issued \$5,815,000 Revenue Bonds, series 2016 for the purpose in making improvements to its existing Port Isabel Wastewater Treatment Plant, including installing a new blower, new return activated sludge/waste activated sludge (RAS/WAS) pump station and new headworks on the existing plant site. Improvements also include replacing the plant's aeration basin, digester diffusers, air piping, electrical system and controls.

The following is a schedule of bonds outstanding at September 30, 2017:

	Bond Issue	Interest Rate	Balance at September 30, 2017
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 15, 2012. Maturity date June 1, 2032.		2% - 5%	\$ 12,930,000
\$2,580,000 Unlimited Tax Bonds, Series 2016. Issued March 2, 2016. Maturity date June 1, 2032.		2.29%	2,260,000
Total General Obligation Tax Bonds			15,190,000
\$6,345,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. Issued April 1, 2015. Maturity date March 1, 2027.		2.64%	5,360,000
\$5,815,000 Waterworks and Sewer System Revenue Bonds, Series 2016. Issued October 16, 2016. Maturity date March 1, 2036		.01% - 1.37%	5,535,000
Total Revenue Bonds			10,895,000
Total General Obligation and Revenue Bonds			\$ 26,085,000

Principal and interest on the bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District and additionally from net revenues derived from the operation of the District's water and wastewater system.

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 7: LONG-TERM DEBT (Continued)

Advance Refunding

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At September 30, 2017, the following outstanding bonds are considered defeased:

Series	Ending Balance
2007	\$5,255,000

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2017 are as follows:

	09/30/16	Additions	Reductions	09/30/17	Due Within One Year
Bonds payable					
General Obligation Tax Bonds	\$ 16,010,000	\$ -	\$ 820,000	\$ 15,190,000	\$ 835,000
Revenue Bonds	5,825,000	5,815,000	745,000	10,895,000	755,000
Plus: unamortized premium	266,294	-	16,644	249,650	-
Total bonds payable	22,101,294	5,815,000	1,581,644	26,334,650	1,590,000
Net pension liability	1,861,286	54,460	-	1,915,746	-
Lease payable	88,116	-	11,480	76,636	11,855
Compensated Absences	69,051	5,864	-	74,915	-
	\$ 24,119,747	\$ 5,875,324	\$ 1,593,124	\$ 28,401,947	\$ 1,601,855

The debt service fund makes the payments on the bonds payable. The net pension liability and the compensated absences are expected to be liquidated by the general fund.

The debt service requirements for the District's bonds are as follows:

Year Ended	Revenue Notes		General Obligation Bonds		
	September 30	Principal	Interest	Principal	Interest
2018	\$	755,000	\$ 177,150	\$ 835,000	\$ 508,817
2019		770,000	164,412	860,000	484,832
2020		780,000	151,344	885,000	460,132
2021		795,000	137,932	905,000	434,718
2022		810,000	123,830	935,000	408,704
2023 – 2027		4,260,000	380,001	5,130,000	1,574,221
2028 – 2032		1,475,000	124,424	5,640,000	668,260
2033 – 2037		1,250,000	33,848	-	-
Total	\$	10,895,000	\$ 1,292,941	\$ 15,190,000	\$ 4,539,684

NOTE 8: EMERGENCY PREPARATION AND RECOVERY FUND

In lieu of a written minimum fund balance policy, the District created an Emergency Preparation and Recovery Fund to minimize the effects of natural or man-made emergencies that may arise and affect the District's operations. This policy, adopted by the Board, states that monies to be placed in this fund shall be in an amount to constitute no less than twenty percent of the District's operating budget. Prior to the use of these monies, the Board must first declare an emergency exists and approve the use of the funds.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM

A. General Information about the Pension Plan

Plan description

The District provides retirement, disability, and death benefits for all of its nontemporary full-time and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The TCDRS is an agent multiple-employer, statewide public employee pension plan established by the Texas Legislature in 1967 and administered by a nine member Board of Trustees. The retirement system consists of 602 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 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employees contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-finance monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

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.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Under the TCDRS Act, the contributions rate of the employer is actuarially determined annually and approved by the TCDRS Board of Trustees. The employer contributed using the actuarially determined rate of 14.27% and 13.83% for the calender years 2016 and 2015, respectively. The contribution rate payable by the employee members for the calendar years 2016 and 2015 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Employees covered by benefit terms

At December 31, 2016, the following employees were covered by the benefit terms:

	Number of Employees
Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	37
Active employees	74
Total	161

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	4.9%, average, including inflation
Investment rate of return	8.00%, net of pension plan investment expense

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 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two year set-forward for females.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Updated mortality assumptions were adopted in 2015. All other 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.

Discount Rate

Discount rate (*2)	8.10%	8.10%
Long-term expected rate of return, net of investment expense (*2)	8.10%	8.10%
Municipal bond rate(*3)	Does not apply	Does not apply

*(*2) This 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.*

*(*3) 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. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.*

Depletion of Plan Assets/GASB Discount Rates

The discount rate is the single rate of return that, when applied to all projected benefit payments result in an actuarial present value of projected benefit payments that equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

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Laguna Madre Water District Notes to Financial Statements

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Long-term expected rate of return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7-10 year time horizon.

Note that 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. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2012 for more details.

Asset Class	Benchmark	Target Allocation (*1)	Geometric Real Rate of Return (Expected minus inflation) (*2)
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (*3)	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities – Developed Markets	MSCI World Ex USA (net)	10.00%	4.70%
International Equities – Emerging Markets	MSCI EM Standard (net) Index	7.00%	5.70%
Investment –Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index (*4)	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPS)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (*5)	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composit Index	20.00%	3.85%

(*1) Target asset allocation adopted at the April 2017 TCDRS Board meeting.

(*2) Geometric real rates of return in addition to assumed inflation of 2.0%, per Cliffwater's 2017 capital market assumptions.

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

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

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

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Changes in the Net Pension Liability

The District's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The District's changes in net pension liability were as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances as of December 31, 2015	\$ 11,679,813	\$ 9,818,527	\$ 1,861,286
Changes for the year:			
Service cost	351,190	-	351,190
Interest on total pension liability (*1)	934,915	-	934,915
Effect of plan changes (*2)	-	-	-
Effect of economic/demographic gains or losses	(63,218)	-	(63,218)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(4,685)	(4,685)	-
Benefit payments	(627,278)	(627,278)	-
Administrative expenses	-	(7,894)	7,894
Member contributions	-	177,303	(177,303)
Net investment income	-	725,930	(725,930)
Employer contributions	-	346,147	(346,147)
Other (*3)	-	(73,059)	73,059
Balances as of December 31, 2016	\$ 12,270,737	\$ 10,354,991	\$ 1,915,746

(*1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(*2) No plan changes valued.

(*3) Relates to allocation of system-wide items.

**Laguna Madre Water District
Notes to Financial Statements**

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Changes in the Net Pension Liability (Continued)

Sensitivity Analysis

The following presents the net pension liability/(asset) of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability/(asset) 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	\$ 13,937,362	\$ 12,270,737	\$ 10,889,556
Fiduciary net position	10,354,992	10,354,991	10,354,992
Net pension liability/(asset)	\$ 3,582,370	\$ 1,915,746	\$ 534,564

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS CAFR.

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

For the year ended September 30, 2017, The District recognized pension expense of \$585,269. The District reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 220,754	\$ 47,209
Changes in assumptions	-	53,127
Net difference between projected and actual earnings	-	606,522
Contributions made subsequent to measurement date (*1)	N/A	264,123
Total deferred inflows/outflows of resources related to pensions	\$ 220,754	\$ 970,981

(*1) Reflects employer contributions made subsequent to the measurement date through the employer's fiscal year end. This amount will be recognized as a reduction in Net Pension liability for the year ending September 30, 2018.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

<u>Year ended December 31,</u>	
2017	\$ 183,291
2018	183,291
2019	156,962
2020	(26,903)
2021	(10,537)
Thereafter (*1)	-

*(*1) Total remaining balance to be recognized in future years. Note that additional future deferred inflows and outflows of resources may impact these numbers*

NOTE 10: RISK MANAGEMENT

The District is exposed to various risk of loss related to torts, theft of damage to, and destruction of assets, error and omissions, inquiries to employees, and natural disasters. Significant losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage.

During the year ended September 30, 2017, employees of the District were covered by a health, dental, and life insurance plan (the "Plan"). The District paid premiums of \$550.05 per month per employee to the Plan for health insurance and \$37.10 per month per employee to the Plan for dental, vision and life insurance. Employees, at their options, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contact between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for United Healthcare are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

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**Laguna Madre Water District
Notes to Financial Statements**

NOTE 11: INTERFUND TRANSFERS

Transfer in:					
	General Fund	Capital Projects	Debt Service	Emergency Fund	Total
Transfer out:					
General fund	\$ (2,788,003)	\$ 1,855,377	\$ 932,626	\$ -	-
Debt service	6,661	-	(6,661)	-	-
Capital projects	-	-	-	-	-
	\$ (2,781,342)	\$ 1,855,377	\$ 925,965	\$ -	-

During the year, transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and (2) move general fund resources to the reserve fund for emergencies.

NOTE 12: AUTHORIZED, ISSUED AND OUTSTANDING DEBT

On May 14, 2011, voters in the Laguna Madre Water District approved two propositions for issuing new bonds. At September 30, 2017, only a portion of that debt had been issued. The projects are as follows:

	Authorized	Issued May 15, 2012	Issued February 12, 2016	Remaining Authorization
System improvements	\$ 23,750,000	\$ 21,170,000	\$ 2,580,000	-
Seawater desalination plant	15,655,000	-	-	15,655,000
	\$ 39,405,000	\$ 21,170,000	\$ 2,580,000	\$ 15,655,000

NOTE 13: MAJOR CONSTRUCTION COMMITMENTS

The District has committed certain funds for major construction projects. The projects are as follows:

Projects:	Amount committed:
Reuse improvements Port Isabel WWTP	\$ 6,617,067
	\$ 6,617,067

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**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**



Laguna Madre Water District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
General Fund – Budget and Actual

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Water services	\$ 4,621,876	\$ 5,481,245	\$ 5,481,245	\$ -
Wastewater services	3,143,036	3,713,416	3,713,416	-
Other water sales	75,813	146,833	134,503	(12,330)
Late fees	63,063	63,063	58,683	(4,380)
Intergovernmental	1,500	1,500	-	(1,500)
Tap fees	172,141	173,511	162,892	(10,619)
Investment earnings	12,996	36,563	33,305	(3,258)
Miscellaneous	455,933	518,838	154,440	(364,398)
Total revenues	<u>8,546,358</u>	<u>10,134,969</u>	<u>9,738,484</u>	<u>(396,485)</u>
Expenditures:				
Service operations:				
Administration	273,759	273,444	215,018	58,426
Contracted services	278,900	360,342	285,614	74,728
Insurance	186,642	180,946	161,757	19,189
Professional fees	143,500	366,846	337,497	29,349
Payroll and benefits	3,708,016	3,780,313	3,657,751	122,562
Utilities	806,420	750,163	738,882	11,281
Materials and supplies	883,397	996,062	955,147	40,915
Repairs and maintenance	337,250	324,602	275,616	48,986
Other	128,770	88,164	59,745	28,419
Capital outlay	101,500	226,088	206,388	19,700
Lease principal	-	-	11,480	(11,480)
Interest and fiscal charges	-	-	2,694	(2,694)
Total expenditures	<u>6,848,154</u>	<u>7,346,970</u>	<u>6,907,589</u>	<u>453,555</u>
Excess (deficiency) of revenues over expenditures	1,698,204	2,787,999	2,830,895	57,070
Other financing sources/uses:				
Gain on sale of assets	-	-	-	-
Transfers-internal activities	(1,698,003)	(2,788,003)	(2,781,342)	6,661
Net other financing sources/uses	<u>(1,698,003)</u>	<u>(2,788,003)</u>	<u>(2,781,342)</u>	<u>6,661</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 201	\$ (4)	49,553	\$ 63,731
Fund balance:				
Beginning of the year			<u>6,267,812</u>	
End of the year			<u>\$ 6,317,365</u>	

Laguna Madre Water District
Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balance
General Fund – Budget and Actual

1. As required by the Texas Water Code, the General Manager submits to the Board of Directors the proposed executive budgets for the fiscal year prior to the beginning of such fiscal year.
2. Budget Workshops are conducted to obtain rate payers comments.
3. The original amount appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriate budget resolutions by the Board of Directors. The original annual appropriated budgets are adopted by resolution by the Board of Directors prior to the beginning of the fiscal year as required by state law. The final annual amended appropriated budgets are shown in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.
4. The General Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the overall total of appropriated expenditures of any fund must be approved by the Board of Directors. During the year, the budget was amended three times.
5. Appropriations lapse at the end of each fiscal year.

Laguna Madre Water District
Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 351,190	\$ 369,414	\$ 349,544
Interest on total pension liability	934,915	909,356	857,968
Effect of plan changes	-	(86,128)	-
Effect of assumption changes or inputs	-	79,690	-
Effect of economic/demographic (gains) or losses	(63,218)	(252,109)	94,417
Benefit payments/refunds of contributions	(631,962)	(763,279)	(588,331)
Net change in total pension liability	590,925	256,944	713,598
Total pension liability, beginning	11,679,814	11,422,870	10,709,272
Total pension liability, ending (a)	\$ 12,270,739	\$ 11,679,814	\$ 11,422,870
Fiduciary Net Position			
Employer contributions	\$ 346,147	\$ 350,544	\$ 369,552
Member contributions	177,303	177,449	187,581
Investment income net of investment expenses	725,930	(25,081)	643,747
Benefit payments/refunds of contributions	(631,962)	(763,279)	(588,331)
Administrative expenses	(7,894)	(7,167)	(7,549)
Other	(73,059)	(25,499)	15,773
Net change in in fiduciary net position	536,465	(293,033)	620,773
Fiduciary net position, beginning	9,818,527	10,111,561	9,490,788
Fiduciary net position, ending (b)	\$ 10,354,992	\$ 9,818,528	\$ 10,111,561
Net pension liability / (asset), ending = (a) - (b)	\$ 1,915,747	\$ 1,861,286	\$ 1,311,309
Fiduciary net position as a % of total pension liability	84.39%	84.06%	88.52%
Pensionable covered payroll	\$ 2,532,895	\$ 2,534,988	\$ 2,679,726
Net pension liability as a % of covered payroll	75.63%	73.42%	48.93%

This schedule will ultimately present information for the past ten years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, should not be shown here.

**Laguna Madre Water District
Schedule of Employer Contributions**

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	352,564	352,564	-	2,551,846	13.8%
2016	344,556	344,556	-	2,518,460	13.7%
2017	360,462	360,462	-	2,590,525	13.9%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization period	13.4 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions	2015: Employer contributions reflect that a 100% CPI COLA was adopted.
Reflected in the Schedule	2016: No changes in plan provisions.



**OTHER SUPPLEMENTARY
INFORMATION SECTION**

Laguna Madre Water District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Debt Service Fund – Budget and Actual

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Property taxes	\$ 1,387,674	\$ 1,387,674	\$ 1,473,558	\$ 85,884
Penalties and interest	46,505	46,505	30,409	(16,096)
Investment earnings	5,897	5,897	19,365	13,468
Miscellaneous	20	20	12	(8)
Total revenues	<u>1,440,096</u>	<u>1,440,096</u>	<u>1,523,344</u>	<u>83,248</u>
Expenditures:				
Debt service:				
Principal	1,669,575	1,669,575	1,565,000	104,575
Interest	373,068	373,068	714,584	(341,516)
Bond issuance costs	-	-	-	-
Advance refunding escrow	-	-	-	-
Contracted service	50,125	50,125	54,432	(4,307)
Total expenditures	<u>2,092,768</u>	<u>2,092,768</u>	<u>2,334,016</u>	<u>(241,248)</u>
Excess (deficiency) of revenues over expenditures	(652,672)	(652,672)	(810,672)	(158,000)
Other financing sources/(uses):				
Refunding bonds issued	-	-	-	-
Payment to refunded bond escrow	-	-	-	-
Transfers-internal activities	932,626	932,626	925,965	(6,661)
Net other financing sources/uses	<u>932,626</u>	<u>932,626</u>	<u>925,965</u>	<u>(6,661)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 279,954	\$ 279,954	115,293	\$ (164,661)
Fund balance:				
Beginning of the year			2,896,569	
End of the year			<u>\$ 3,011,862</u>	

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**TEXAS SUPPLEMENTARY
INFORMATION (TSI) SECTION**

**Laguna Madre Water District
Notes Required by the Water District Accounting Manual**

CREATION OF DISTRICT

History

Laguna Madre Water District (the "District") is a governmental entity created by an election held on November 14, 1950, pursuant to Article XVI, Section 59, of the Texas Constitution and Article 7881, Revised Civil Statutes of Texas. The District Board held its first meeting on December 11, 1950, and issued its first bonds on July 16, 1951. Originally created as a Fresh Water Supply District, the District was converted into a Municipal Utility District by an order of the Texas Water Rights Commission on November 20, 1973. Effective February 16, 1996, the Texas Natural Resources Conservation Commission officially authorized the District to change its name to the Laguna Madre Water District. The District is under the authority of the Texas Commission on Environmental Quality and is operated under and governed by Chapter 54 of the Texas Water Code.

The District's principal function is to provide treated water and wastewater services to the City of Port Isabel, Texas and various other communities which are adjacent to Port Isabel, Texas.

The District obtains water from the Rio Grande under rights granted by the State of Texas permitting the use of up to 7,305,156 acre-feet annually. This water is pumped via the District's raw water transmission line from the Rio Grande River to Water Plant No. 2 in Laguna Vista.

Tax Revenues

There is no maximum applicable tax rate for the District and the extent of the taxable property is \$3,224,088,223.

The following notes which are required by the Water District Accounting Manual are fully disclosed in the Basic Financial Statement.

Pledge of Revenues is disclosed in Note 7, Long Term Debt.

Compliance with Debt Service Requirements is disclosed in Note 1, Restricted Assets.

Redemption of Bonds is disclosed in Note 7, Long Term Debt

Pension Coverage for District Employee is disclosed in Note 9, Employee Retirement System.

**Laguna Madre Water District
TSI – 1. Services and Rates**

For the year ended September 30, 2017

1. Services provided by the District during the fiscal year.

- Retail Water
- Retail Wastewater

2. Retail Service Providers

a. Retail rates for a 5/8" meter

	Minimum Charge	Minimum Usage	Flat Rate Y/N	1,000 Gallons over minimum	Usage levels
WATER	\$ 12.26	4,000	N	2.47	4,001 to 10,000
				3.89	10,001 to 20,000
				5.55	20,001 plus
WASTEWATER *	\$ 13.46	3,000		2.73	3,001 to 4,500
				4.23	4,501 to 7,500
				6.00	7,501 plus

Surcharge: \$0.05

District employs winter averaging for wastewater usage? No
 Total water and wastewater charges per 10,000 gallons usage (including surcharge): \$53.10

**Laguna Madre Water District
TSI – 1. Services and Rates (Continued)**

For the year ended September 30, 2017

b. Water and Wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	6,005	5,121	-	-
1"	1,327	1,173	-	-
2"	952	682	-	-
4"	213	133	-	-
6"	234	119	-	-
8"	14	9	-	-
10"	0	0	-	-
18"	1	1	-	-
<hr/>				
Total Water:	8,746	7,238	-	-
<hr/>				
Total Wastewater:	6,557	6,545	-	-

3. Total water consumption (in thousands) during the fiscal year:

Galons pumped into system: 1,441,755,000

Gallons Billed to Customers: 1,348,053,900

Water Accountability ratio (Gallons billed/gallons pumped); 93.50%

4. Location of the District:

County in which District is located: Cameron
 Is the District located entirely within one county? Yes
 Is the District located within a city? Yes
 Cities in which District located is located: Port Isabel, South Padre Island, Town of Laguna Vista
 Is the District located within a city's extra territorial jurisdiction (ETJ)? Yes - Partly
 ETJ's in which District is located: Laguna Heights (unincorporated)
 Are board members appointed by an office outside the District? Yes
 If yes, by whom? N/A

Laguna Madre Water District
TSI – 2. General Fund Expenditures

For the year ended September 30, 2017

Personnel (Including Benefits)	\$ 3,657,751
Professional Fees:	
Auditing	28,700
Legal	39,417
Engineering	205,083
Financial Advisor	24,067
IT Consultant	40,231
Contracted Services	215,079
Utilities	738,882
Repairs and Maintenance	275,616
Administrative Expenditures	
Office Supplies	31,086
Property Insurance	123,996
Other Administrative Expenditures	235,866
Capital Outlay:	
Capital Assets	206,388
Solid Waste Disposal	70,535
Materials and Supplies	955,147
Other Expenditures	59,745
Total Expenditures	\$ 6,907,589

Number of persons employed by the District: 70 Full Time

**Laguna Madre Water District
TSI – 3. Temporary Investments**

For the year ended September 30, 2017

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
Debt Service Fund				
CD - Southside Bank	1737345	1.03%	12/1/2017	\$653,379
CD - Southside Bank	1737347	1.14%	1/2/2018	502,877
CD - Lubbock Bank	200029380	1.20%	2/1/2018	402,426
CD - Lubbock Bank	200029399	1.25%	3/1/2018	503,159
CD - Lubbock Bank	200029402	1.30%	4/2/2018	503,286
CD - Lubbock Bank	200029410	1.35%	5/1/2018	201,365
CD - Lubbock Bank	200029429	1.40%	6/1/2018	251,770
CD - Legacy Texas	60050001579	1.02%	11/1/2017	1,005,153
Total - All Funds				\$4,023,415

Laguna Madre Water District
TSI – 4. Texas Levied and Receivable

For the year ended September 30, 2017	Debt Service Taxes
Taxes Receivable Beginning of Year	\$ 138,143
2016 Original Tax Levy	1,451,488
Tax Roll Adjustments	10,557
Total to be accounted for	1,600,188

Tax Collections:	
Current Year	1,437,588
Prior Year	35,970
Total Collections	1,473,558
Taxes Receivable, End of Year	\$ 126,630

Taxes Receivable, By Years	
Prior Years	\$ 102,973
Current Year - 2016	23,657
Taxes Receivable, End of Year	\$ 126,630

September 30,	2016	2015	2014	2013
Property Valuations:				
Land	\$ 1,297,763,711	\$ 1,315,897,695	\$ 1,323,826,813	\$ 1,376,777,047
Improvements	2,041,412,552	2,040,487,372	2,027,911,719	2,055,225,938
Personal Property	99,482,510	100,511,349	98,291,083	90,029,621
Total Property Valuations	\$ 3,438,658,773	\$ 3,456,896,416	\$ 3,450,029,615	\$ 3,522,032,606

Tax Rates Per \$100 Valuation:				
Debt Service Tax Rate	\$ 0.045020	\$ 0.044643	\$ 0.039260	\$ 0.080820

Original Tax Levy:	\$ 1,451,488	\$ 1,445,227	\$ 1,271,531	\$ 2,672,528
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Percent of Taxes Collected				
To Taxes Levied	98.40%	98.40%	98.40%	95.98%

Laguna Madre Water District
TSI – 5. Long Term Debt Requirements by Years

Waterworks and Sewer System Revenue Notes, Series 2015

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>March 1,</u>	<u>March 1 & Sept 1</u>	<u>Total</u>
2018	\$ 475,000	\$ 135,234	\$ 610,234
2019	490,000	122,496	612,496
2020	500,000	109,428	609,428
2021	515,000	96,030	611,030
2022	530,000	82,236	612,236
2023	540,000	68,112	608,112
2024	555,000	53,658	608,658
2025	570,000	38,808	608,808
2026	585,000	23,562	608,562
2027	600,000	7,920	607,920
	<u>\$ 5,360,000</u>	<u>\$ 737,484</u>	<u>\$ 6,097,484</u>

Laguna Madre Water District
TSI – 5. Long Term Debt Requirements by Years (Continued)

Unlimited Tax Bonds, Series 2012

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>June 1,</u>	<u>June 1 & Dec 1</u>	<u>Total</u>
2018	\$ 685,000	\$ 457,063	\$ 1,142,063
2019	705,000	436,513	1,141,513
2020	725,000	415,362	1,140,362
2021	745,000	393,612	1,138,612
2022	770,000	371,263	1,141,263
2023	800,000	340,463	1,140,463
2024	820,000	316,463	1,136,463
2025	845,000	290,838	1,135,838
2026	875,000	263,375	1,138,375
2027	905,000	234,500	1,139,500
2028	935,000	203,956	1,138,956
2029	965,000	171,231	1,136,231
2030	1,005,000	136,250	1,141,250
2031	1,055,000	86,000	1,141,000
2032	1,095,000	43,800	1,138,800
	<u>\$ 12,930,000</u>	<u>\$ 4,160,689</u>	<u>\$ 17,090,689</u>

Laguna Madre Water District
TSI – 5. Long Term Debt Requirements by Years (Continued)

Unlimited Tax Bonds, Series 2016

Due During Fiscal Year Ending	Principal Due June 1,	Interest Due June 1 & Dec 1	Total
2018	\$ 150,000	\$ 51,754	\$ 201,754
2019	155,000	48,319	203,319
2020	160,000	44,770	204,770
2021	160,000	41,106	201,106
2022	165,000	37,442	202,442
2023	170,000	33,660	203,660
2024	175,000	29,770	204,770
2025	175,000	25,763	200,763
2026	180,000	21,755	201,755
2027	185,000	17,633	202,633
2028	190,000	13,397	203,397
2029	195,000	9,046	204,046
2030	200,000	4,580	204,580
	<u>\$ 2,260,000</u>	<u>\$ 378,995</u>	<u>\$ 2,638,995</u>

Laguna Madre Water District
TSI – 5. Long Term Debt Requirements by Years (Continued)

TWDB Revenue Bonds, Series 2016

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>March 1,</u>	<u>Mar 1 & Sept 1</u>	<u>Total</u>
2018	\$ 280,000	\$ 41,916	\$ 321,916
2019	280,000	41,916	321,916
2020	280,000	41,916	321,916
2021	280,000	41,902	321,902
2022	280,000	41,594	321,594
2023	280,000	40,796	320,796
2024	280,000	39,550	319,550
2025	280,000	37,912	317,912
2026	285,000	35,975	320,975
2027	285,000	33,710	318,710
2028	290,000	31,092	321,092
2029	290,000	28,207	318,207
2030	295,000	25,105	320,105
2031	300,000	21,773	321,773
2032	300,000	18,248	318,248
2033	305,000	14,541	319,541
2034	310,000	10,620	320,620
2035	315,000	6,495	321,495
2036	320,000	2,192	322,192
	<u>\$ 5,535,000</u>	<u>\$ 555,454</u>	<u>\$ 6,090,454</u>

Laguna Madre Water District
TSI – 5. Long Term Debt Requirements by Years (Continued)

Annual Requirements for All Series

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>March 1,</u>	<u>Mar 1 & Sept 1</u>	<u>Total</u>
2018	\$ 1,590,000	\$ 685,967	\$ 2,275,967
2019	1,630,000	649,244	2,279,244
2020	1,665,000	611,476	2,276,476
2021	1,700,000	572,650	2,272,650
2022	1,745,000	532,535	2,277,535
2023	1,790,000	483,031	2,273,031
2024	1,830,000	439,441	2,269,441
2025	1,870,000	393,321	2,263,321
2026	1,925,000	344,667	2,269,667
2027	1,975,000	293,763	2,268,763
2028	1,415,000	248,445	1,663,445
2029	1,450,000	208,484	1,658,484
2030	1,500,000	165,935	1,665,935
2031	1,355,000	107,773	1,462,773
2032	1,395,000	62,048	1,457,048
2033	305,000	14,541	319,541
2034	310,000	10,620	320,620
2035	315,000	6,495	321,495
2036	320,000	2,192	322,192
	<u>\$ 26,085,000</u>	<u>\$ 5,832,622</u>	<u>\$ 31,917,622</u>

Laguna Madre Water District
TSI – 6. Changes in Long-Term Bonded Debt

For the year ended September 30, 2017

	Bond Issues				
	Series 2012	Series 2015	Series 2016 Tax	Series 2016 Revenue	Series Total
Interest rates	2.0 - 5.0%	2.64%	2.29%	.01 - 1.37%	
Dates Interest Payable	6/1, 12/1	3/1, 9/1	6/1, 12/1	3/1, 9/1	
Maturity dates	6/1/2012 to 6/1/2032	9/1/2015 to 3/1/2027	6/1/2016 to 6/1/2030	3/1/2017 to 3/1/2036	
Bonds outstanding at beginning of current year	\$13,600,000	\$5,825,000	\$2,410,000	\$0	\$21,835,000
Bonds sold during Current Year	-	-	-	5,815,000	\$5,815,000
Bonds refunded	-	-	-	-	
Bonds retired	670,000	465,000	150,000	280,000	\$1,565,000
Bonds outstanding at end of current year	\$12,930,000	\$5,360,000	\$2,260,000	\$5,535,000	\$26,085,000
Interest paid during the Fiscal Year	\$470,463	\$147,642	\$55,189	\$37,840	\$711,134

Paying agent Name & City

Series 2012: Bank of New York Mellon, Corporate Trust, New York, New York

Series 2015: Regions Capital Advantage, Inc., Birmingham, Alabama

Series 2016 Tax: BOKF, NA Dallas, Texas

Series 2016 Revenue: Bank of New York Mellon, Corporate Trust, New York, New York

Bond Authority:	Tax Bonds	Revenue Bonds
Amount Authorized	\$39,405,000	\$12,160,000
Amount Issued	23,750,000	12,160,000
Remaining to be Issued	\$15,655,000	\$0

Debt Service Fund Cash and Temporary Investments balances as of 9-30-17: \$2,965,200

Average annual Debt Service payment (principal & interest) for remaining term of all debt: \$1,595,881

Laguna Madre Water District
TSI – 7. Comparative Schedule of Revenues and Expenditures General Fund
and Debt Service Fund

For the year ended September 30,	2017	%	2016	%	2015	%	2014	%	2013*	%
General Fund:										
Revenues:										
Water Service	5,481,245	56.3%	5,060,601	54.7%	4,596,999	57.3%	4,331,211	58.1%	2,251,579	59.0%
Wastewater Service	3,713,416	38.1%	3,496,971	37.8%	3,063,040	38.2%	2,828,501	37.9%	1,459,563	38.3%
Other Water sales	134,503	1.4%	124,459	1.3%	-	0.0%	-	0.0%	-	0.0%
Late fees	58,683	0.6%	76,976	0.8%	63,063	0.8%	57,194	0.8%	28,115	0.7%
Intergovernmental	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Tap Connection fees	162,892	1.7%	134,898	1.5%	167,919	2.1%	111,151	1.5%	23,850	0.6%
Interest on investments	33,305	0.3%	14,836	0.2%	5,195	0.1%	5,990	0.1%	2,143	0.1%
Miscellaneous	154,440	1.6%	350,709	3.8%	126,676	1.6%	125,229	1.7%	48,539	1.3%
TOTAL REVENUES	9,738,484	100.0%	9,259,450	100.0%	8,022,892	100.0%	7,459,276	100.0%	3,813,789	100.0%
EXPENDITURES:										
Professional fees	337,497	3.5%	388,806	4.2%	346,321	4.3%	322,314	4.3%	130,587	3.4%
Payroll and benefits	3,657,751	37.6%	3,687,855	39.8%	3,668,463	45.7%	3,810,930	51.1%	1,483,380	38.9%
Utilities	738,882	7.6%	815,276	8.8%	804,031	10.0%	769,218	10.3%	487,287	12.8%
Materials and supplies	955,147	9.8%	1,162,026	12.5%	986,917	12.3%	846,303	11.3%	450,425	11.8%
Repairs and Maintenance	275,616	2.8%	341,278	3.7%	280,086	3.5%	255,350	3.4%	140,593	3.7%
Other expenditures	722,134	7.4%	196,707	2.1%	206,859	2.6%	167,627	2.2%	67,869	1.8%
Capital outlay	206,388	2.1%	417,400	4.5%	367,244	4.6%	508,905	6.8%	97,785	2.6%
Lease principal	11,480	0.1%	13,329	0.1%	-	0.0%	-	0.0%	-	0.0%
Interest and fiscal charges	2,694	0.0%	844	0.0%	-	0.0%	-	0.0%	-	0.0%
TOTAL EXPENDITURES	6,907,589	70.9%	7,023,521	75.9%	6,659,921	83.0%	6,680,647	89.6%	2,857,926	74.9%
EXCESS REVENUES OVER (UNDER) EXPENDITURES	2,830,895	29.1%	2,235,929	24.1%	1,362,971	17.0%	778,629	10.4%	955,863	25.1%

Note*: Results are for the 5 month period ended September 30, 2013. During 2013 the District changed from an April 30 fiscal year end to a September 30 fiscal year end.

Laguna Madre Water District
TSI – 7. Comparative Schedule of Revenues and Expenditures General Fund
and Debt Service Fund (Continued)

For the year ended September 30,	2017	%	2016	%	2015	%	2014	%	2013*	%
Debt Service Fund:										
Revenues:										
Property taxes	1,473,558	96.7%	1,480,550	97.0%	1,348,644	96.0%	2,668,060	97.5%	98,278	73.5%
Penalty and Interest	30,409	2.0%	35,959	2.4%	51,639	3.7%	62,146	2.3%	33,861	25.3%
Interest on investments	19,365	1.3%	7,062	0.5%	3,663	0.3%	7,063	0.3%	1,650	1.2%
Miscellaneous	12	0.0%	2,115	0.1%	671	0.0%	-	0.0%	-	0.0%
TOTAL REVENUES	1,523,344	100.0%	1,525,686	100.0%	1,404,617	100.0%	2,737,269	100.0%	133,789	100.0%
EXPENDITURES:										
Tax collection expense	714,584	46.9%	42,532	2.8%	33,636	2.4%	3,423	0.1%	1,251	0.9%
Appraisal charge	54,432	3.6%	15,707	1.0%	30,221	2.2%	101,873	3.7%	6,892	5.2%
Debt service, interest and fees	1,565,000	102.7%	1,939,105	127.1%	2,504,931	178.3%	3,204,346	117.1%	3,421,586	2557.4%
Bond issue costs	-	0.0%	-	0.0%	140,385	10.0%	-	0.0%	-	0.0%
TOTAL EXPENDITURES	2,334,016	153.2%	1,997,344	130.9%	2,709,173	192.9%	3,309,642	120.9%	3,429,729	2563.5%
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(810,672)	(53.2%)	(471,658)	(30.9%)	(1,304,556)	(92.9%)	(572,373)	(20.9%)	(3,295,940)	(2463.5%)
TOTAL ACTIVE RETAIL WATER CONNECTIONS	7,238		6,482		6,319		6,208		6,208	
TOTAL ACTIVE RETAIL WASTE WATER CONNECTIONS	6,545		5,710		5,413		5,344		5,350	

Note*: Results are for the 5 month period ended September 30, 2013. During 2013 the District changed from an April 30 fiscal year end to a September 30 fiscal year end.

Laguna Madre Water District
TSI – 8. Board Members, Key Personnel and Accountants

For the year ended September 30, 2017

Complete District Mailing Address: 105 Port Road
 Port Isabel, TX 78578
 District Business Telephone (956) 943-2626

Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): May 15, 2005

Limit on Fees of Office that a Director may receive during a fiscal year
 (Set by Board Resolution - TWC 49.0060): \$ - 0 - .

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2017	Expense Reimbursement 9/30/2017	Title at Year End
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BOARD MEMBERS

Jeff Keplinger 12 Ocelot Trail Laguna Vista, TX 78578	11/16 - 8/17	\$ -	\$ -	
Whitey Thomas 913 Yturria Port Isabel, TX 78578	11/16 - 8/17	\$ -	\$ -	
Martin Cantu 1805 N Shore Dr Port Isabel, TX 78578	2/15 - 5/16	\$ -	\$ -	
Scott Friedman PO Box 3897 South Padre Island, TX 78597	5/04 - 11/20	\$ -	\$ -	Chairman
Rick Wells 115 S Trevino Port Isabel, TX 78578	11/14 - 11/18	\$ -	\$ -	Vice-Chairman
Doyle Wells, III PO Box 3633 South Padre Island, TX 78596	7/16 - 11/18	\$ -	\$ -	Secretary
Alex Avalos 212 W Esperanza / PO Box 2867 South Padre Island, TX 78596	9/17 - 11/20	\$ -	\$ -	Director
Herb Houston 4 Whooping Crane Laguna Vista, TX 78578	9/17 - 11/20	\$ -	\$ -	Director

Laguna Madre Water District
TSI – 8. Board Members, Key Personnel and Accountants (Continued)

For the year ended September 30, 2017

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2017	Expense Reimbursement 9/30/2017	Title at Year End
KEY ADMINISTRATIVE PERSONNEL				
Carlos J Galvan 1636 Oklaoma Street Port Isabel TX 78578	2001	\$ -		General Manager
Sanjuana Garcia 5211 Killian Ave Brownsville, TX 78520	2015	\$ -		Director of Finance
Charles Ortiz 2085 Sunset Lake Brownsville, TX 78520	2013	\$ -		District Engineer
Vacant				Director of Operations
CONSULTANTS				
Beatty Bangle Strama 400 West 15 St Ste 1450 Austin, TX 78701	2015	\$ 28,590.17	\$ -	Attorney
Estrada Hinojosa & Co., Inc. 1717 Main Street Dallas, TX 75201	1999	\$ 86,457.00	\$ -	Financial Advisor
G5 Internet Services 311-D Vogel Drive Mercedes, TX 78570	2012	\$ 41,499.70	\$ -	IT Consultant



OTHER INFORMATION SECTION

Laguna Madre Water District Top Ten Taxpayers

For the year ended September 30, 2017

Owner ID	Taxpayer Name		Master Value	Taxable Value
324942	AEP TEXAS CENTRAL CO	\$	13,821,410	\$ 13,821,410
562039	SPI BEACH WATER RESORT WATERPARK LLC	\$	10,882,174	\$ 10,882,174
580926	AGORA USA LP	\$	10,312,156	\$ 11,375,685
536143	SUBSEA 7 PORT ISABEL LLC	\$	9,336,576	\$ 9,336,576
526932	SAPPHIRE VP LP ATTN STEPHEN SWAN	\$	9,000,000	\$ 9,000,000
336660	PENINSULA ISLAND RESORT & SPA LLC	\$	8,797,934	\$ 8,797,934
541018	BAHIA MAR TOWER LLC	\$	8,156,073	\$ 8,156,073
98181	ICS MANAGEMNT COMPANY	\$	7,500,570	\$ 7,500,570
616719	SKIP JACK PROPERTIES LLC	\$	7,376,575	\$ 7,376,575
37416	AEP TEXAS CENTRAL CO	\$	7,189,166	\$ 7,189,166

**Laguna Madre Water District
Top Ten Rate Payers**

For the year ended September 30, 2017

Account Name	Address	City	Amount
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	224,478.45
CAMERON COUNTY PARKS SYSTEM	33174 STATE PARK ROAD 100	SOUTH PADRE ISLAND	180,090.71
TEXAS PACK INC	508 PORT ROAD	PORT ISABEL	172,610.95
SCHLITTERBAHN SO PADRE	200 PADRE BLVD	SOUTH PADRE ISLAND	167,242.44
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	152,771.71
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	137,227.91
SSPIBR, LTD DBA PEARL SO PADRE	310 PADRE BLVD	SOUTH PADRE ISLAND	136,776.51
SCHLITTERBAHN SO PADRE	ISLA BLANCA PARK IRR	SOUTH PADRE ISLAND	108,934.96
SAIDA TOWERS II	400 PADRE BLVD	SOUTH PADRE ISLAND	88,036.13
BRIDGEPOINT CONDOS	334 PADRE BLVD	SOUTH PADRE ISLAND	81,537.40



COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Laguna Madre Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Laguna Madre Water District as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Laguna Madre Water District's basic financial statements, and have issued our report thereon dated April 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laguna Madre Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Laguna Madre Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laguna Madre Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings Reported in Accordance with *Government Auditing Standards* as Finding 2017-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Laguna Madre Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Laguna Madre Water District's Response to Findings

Laguna Madre Water District's response to findings identified in our audit is described in the accompanying Schedule of Audit Findings Reported in Accordance with *Government Auditing Standards*. The Laguna Madre Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas
April 10, 2018

Laguna Madre Water District
Schedule of Audit Findings Reported in Accordance with
Government Auditing Standards

For the year ended September 30, 2017

Finding 2017-01

CONDITION:

In general, material adjusting journal entries were required to be made to several key areas of the financial report including fixed assets, depreciation, bonded debt, construction in progress and property tax revenue and receivables. Journal entries into these accounts were made during the year without adequate review or understanding of the transaction itself.

CRITERIA:

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. Texas Water Code Section 49.196 requires the District's fiscal records be prepared on a timely basis and maintained according to GAAP.

CAUSE OF CONDITION:

Those in charge of various areas of accounting and maintaining the District's general ledger lacked adequate understanding and training to effectively prepare accurate financial statements under generally accepted accounting principles (GAAP). Management did not adequately review key account groups to ensure that balances resulting from transactions and journal entries were correct.

POTENTIAL EFFECT OF CONDITION:

The financial statements prepared by management on a monthly basis could potentially be incorrect and misleading. Furthermore, material errors and fraud could occur without being prevented, detected or corrected on a timely basis. Inaccurate accounting records and financial reports limit and impair access to correct financial information used by the Board of Director's, the public, state agencies, and other interested parties. In addition, these conditions delay the audit process and result in increased audit costs.

(Continued)

Laguna Madre Water District
Schedule of Audit Findings Reported in Accordance with
Government Auditing Standards (Continued)

RECOMMENDATION:

We recommend that management review and reconcile all general ledger accounts to ensure that they are properly stated at the end of each period. Management also should seek out and obtain additional education and training in governmental accounting.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN:

Management is reviewing and reconciling general ledger accounts on a monthly basis. Unfortunately the 2016 audit was not completed on a timely basis and we were unable to implement the recommendations from 2016 until just prior to the end of 2017. But we are currently reconciling general ledger accounts and transactions that are approved by a different accountant. Management has hired degreed accountants to address educational concerns to include the incoming Director of Finance that has been working in governmental accounting. We emphasis cross training when feasible and support individuals to attend any continuing education classes whenever reasonable.