

Laguna Madre Water District

FINANCIAL STATEMENTS And SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended September 30, 2019



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRIcpa.com

**Laguna Madre Water District
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September 30, 2019**

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INTRODUCTORY SECTION

Laguna Madre Water District Organizational Chart

Board Members

Scott D. Friedman
Herb Houston
Alex Avalos
Jason Starkey
Adam Lalonde

Chairman
Vice Chairman
Secretary
Director
Director

Administration

Carlos J. Galvan, Jr.
Robert Gomez
Eduardo Salazar
Charles Ortiz, P.E.

General Manager
Director of Operations
Director of Finance
District Engineer



ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF CAMERON

I, EDUARDO SALAZAR of the

(Name of Duly Authorized District Representative)

LAGUNA MADRE WATER DISTRICT

(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the 26 day of FEBRUARY its annual audit report for the fiscal year or period ended SEPT. 30, 2019 and those copies of the annual audit report have been filed in the district office, located at:

105 PORT ROAD, PORT ISABEL, TEXAS, 78578

(Address of District)

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: 02/28/2020

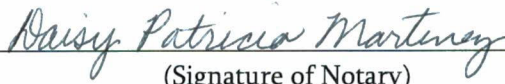
By: 
(Signature of District Representative)

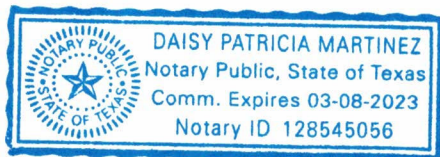
EDUARDO SALAZAR, DIRECTOR OF FINANCE

(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 28th day of February

(SEAL)


(Signature of Notary)



My Commission Expires On: 03-08-2023

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 the Laguna Madre Water District (the "District"), as of and for the year ended September 30, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2019, and the respective change 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 53 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information section, 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 Texas supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas supplementary information section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, other supplementary information section and other information section 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 February 25, 2020, 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 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.

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

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas
February 25, 2020

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Laguna Madre Water District Management's Discussion & Analysis

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, 2019. 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, total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources for the fiscal year ended September 30, 2019, by \$68,478,324. Of this amount \$9,804,225 (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 \$55,075,512.
- The restricted portion of the Government-Wide net position includes amounts restricted for debt service of \$3,598,587.
- The fund balance in the General Fund increased by \$913,563. The ending fund balance for the fiscal year ended September 30, 2019, was \$7,754,516. The General Fund reported a prior period adjustment of \$203,252 that reduced fund balance.
- For the fiscal year ended September 30, 2019, the District's fund balances reported a combined ending fund balance of \$19,694,247.

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 the following funds as major: General Fund, Debt Service Fund, Emergency Services Fund, Capital Projects Fund and AMI Meter Project 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 22-52 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 53-56 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 57-74 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, 2019, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$68,478,324. By far, the largest portion of the District's net position, \$55,075,512 (80.4%), 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, \$3,598,587 (5.3%), represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net position, totaling \$9,804,225 (14.3%), 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 balances 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,

	2019	2018*
Current and other assets	\$ 20,976,069	\$ 15,001,957
Capital assets, net	81,282,034	81,069,844
Total assets	102,258,103	96,071,801
Total deferred outflows of resources	1,210,677	520,126
Long-term liabilities outstanding	33,514,266	26,091,737
Other liabilities	1,349,890	1,889,207
Total liabilities	34,864,156	27,980,944
Total deferred inflows of resources	126,300	315,472
Net position		
Net Investment in capital assets	55,075,512	55,806,128
Restricted	3,598,587	3,200,219
Unrestricted	9,804,225	9,289,164
Total net position	\$ 68,478,324	\$ 68,295,511

* - Fiscal Year 2018 amounts as restated.

Governmental Activities

During the current fiscal year, net position for governmental activities increased by \$182,813. As indicated in Exhibit 2 charges for services comprised 84.0% and property taxes comprised 11.2% of all revenues. Service operations comprised 68.0% of all expenses; interest on long-term debt, 9.0%; and depreciation expense, 23.0%.

Charges for services increased by \$916,789 or 9.8% compared to the prior year. The increase in charges for services is primarily a result of increases in the water and wastewater service rates. Service operations expenses increased by \$950,935 or 13.2% compared to the prior year. The increase is primarily a result of increases in payroll and benefits expenses due to increases in pay rates and additional staff employed by the District. The District also experienced increases in professional fees related to engineering services for the rehabilitation of District lift-stations. Additionally, materials and supplies expenses increased due to an increase in purchases of chemicals for odor control.

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,

	2019	2018
Revenues:		
Program Revenues		
Charges for services	\$ 10,307,947	\$ 9,391,158
General Revenues		
Property taxes	1,375,932	1,475,769
Investment earnings	307,300	213,196
Other	274,146	104,843
Total revenue	12,265,325	11,184,966
Expenses		
Service operations	8,140,721	7,189,786
Interest on long-term debt and fiscal expense	1,068,972	738,687
Depreciation expense	2,872,819	2,705,723
Total expenses	12,082,512	10,634,196
Other Income/Expenses		
Gain/loss on sale of assets	-	(146,274)
Increase in net position	182,813	404,496
Net position, beginning	68,295,511	68,094,267
Prior period adjustment	-	(203,252)
Net position, beginning - as restated	68,295,511	67,891,015
Net position, ending	\$ 68,478,324	\$ 68,295,511

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, 2019, the District's governmental funds reported combined ending fund balances of \$19,694,247, an increase of \$6,318,574 (net of the prior period adjustment of \$203,252) in comparison with the prior year. Approximately \$6,622,817 of this amount (33.6%) 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 (\$769,226), 2) restricted for particular purposes (\$9,199,436), 3) committed for particular purposes (\$2,236,664), 4) assigned for particular purposes (\$866,104).

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 \$6,622,817, while total fund balance increased to \$7,754,516. The fund balance of the District's general fund increased by \$710,311 (net of the prior period adjustment of \$203,252) primarily due to increases in water and wastewater service rates.

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					
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%	61.1%
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	73.6%	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%
2018	\$ 9,585,386	\$ 8,858,549	\$ 6,840,953	71.4%	77.2%
2019	\$ 10,715,366	\$ 9,801,803	\$ 7,754,516	72.4%	79.1%

*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,

	2019	2018
Revenues		
Water services	\$ 5,524,968	\$ 5,321,051
Wastewater services	4,359,557	3,650,725
Other water sales	160,970	119,597
Late fees	76,454	62,631
Tap fees	185,998	237,154
Investment earnings	133,279	89,446
Miscellaneous	274,140	104,782
Total revenues	10,715,366	9,585,386
Expenditures		
Service operation	7,969,692	6,833,457
Lease principal	12,192	11,831
Lease interest	1,981	2,343
Capital outlay	543,467	139,642
Total expenditures	8,527,332	6,987,273
Excess (Deficiency) of Revenues Over (under) Expenditures	2,188,034	2,598,113
Other Financing Sources (Uses)		
Transfer from other funds	-	-
Transfer to other funds	(1,274,471)	(1,871,276)
Total other financing sources	(1,274,471)	(1,871,276)
Net change in fund balance	913,563	726,837
Fund balance, beginning	6,840,953	6,317,368
Prior period adjustment	-	(203,252)
Fund balance, beginning - as restated	6,840,953	6,114,116
Fund balance, ending	\$ 7,754,516	\$ 6,840,953

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,

	2019	2018
Revenues		
Property taxes and penalties/interest	\$ 1,380,612	\$ 1,480,077
Investment earnings	84,308	39,839
Miscellaneous	6	61
Total revenues	1,464,926	1,519,977
Expenditures		
Bond principal	1,850,000	1,590,000
Bond interest and fiscal agent fees	724,095	688,266
Contracted services	49,754	54,014
Total expenditures	2,623,849	2,332,280
Excess (Deficiency) of Revenues Over (under) Expenditures	(1,158,923)	(812,303)
Other Financing Sources (Uses)		
Issuance of debt	287,500	-
Transfer from other funds	1,274,471	932,150
Total other financing sources	1,561,971	932,150
Net change in fund balances	403,048	119,847
Fund balance, beginning	3,131,708	3,011,861
Fund balance, ending	\$ 3,534,756	\$ 3,131,708

As shown in Exhibit 5 above, the debt service fund for the fiscal year ended September 30, 2019, had a fund balance of \$3,534,756; this amount represented an increase of \$403,048 compared to the 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 2019 was \$0.04010 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,

	2019	2018
Revenues		
Investment earnings	\$ 30,715	\$ 48,793
Total revenues	30,715	48,793
Expenditures		
Capital outlay	775,907	7,448,364
Bond issuance costs	252,334	-
Total expenditures	1,028,241	7,448,364
Excess (Deficiency) of Revenues Over (under) Expenditures	(997,526)	(7,399,571)
Other Financing Sources (Uses)		
Issuance of debt	5,425,000	-
Transfer from other funds	284,873	939,126
Total other financing sources	5,709,873	939,126
Net Change in Fund Balances	4,712,347	(6,460,445)
Fund balance, beginning	1,133,172	7,593,617
Fund balance, ending	\$ 5,845,519	\$ 1,133,172

As shown in Exhibit 6 above, the capital projects fund for the fiscal year ended September 30, 2019, had a fund balance of \$5,845,519; this amount represented an increase of \$4,712,347 compared to the prior year. The primary reason for the increase in fund balance is due to the receipt of bond proceeds for upgrades to the District's infrastructure as well as a decrease in current year capital outlay.

The AMI Meter Project is a new fund established by the District to track the proceeds of revenue notes issued for making improvements and extensions to the District's infrastructure. As shown in Exhibit 7 on the next page, the AMI meter project fund for the fiscal year ended September 30, 2019, had a fund balance of \$443,186.

Laguna Madre Water District Management's Discussion & Analysis

Exhibit 7
Laguna Madre Water District
AMI Meter Project Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended September 30,

	2019	2018
Revenues		
Investment earnings	\$ 9,294	\$ -
Total revenues	9,294	-
Expenditures		
Other	13	-
Capital outlay	1,781,577	-
Bond issuance costs	87,145	-
Total expenditures	1,868,735	-
Excess (Deficiency) of Revenues Over (under) Expenditures	(1,859,441)	-
Other Financing Sources (Uses)		
Issuance of debt	2,587,500	-
Transfer to other funds	(284,873)	-
Total other financing sources	2,302,627	-
Net Change in Fund Balances	443,186	-
Fund balance, beginning	-	-
Fund balance, ending	\$ 443,186	\$ -

General Fund Budgetary Highlights

For the fiscal year ended September 30, 2019, total actual revenues exceeded budgeted revenues by \$384,972. Total actual expenditures were under budget by \$445,147. These variances are not considered significant. Variances between budgeted and actual amounts are not expected to have a significant effect on future services or liquidity of the District. The budget remains in effect the entire year and is revised only if necessary through a budget amendment.

Laguna Madre Water District Management's Discussion & Analysis

Capital Asset and Debt Administration

As shown in Exhibit 8, the District's investment in capital assets for its governmental activities as of September 30, 2019, amounts to \$81,282,034. The net increase in capital assets for the fiscal year ended September 30, 2019 was \$212,190.

The depreciation expense for the year ended September 30, 2019 for the governmental activities totaled \$2,872,819.

Exhibit 8
Laguna Madre Water District
Capital Assets
(Net of depreciation)
For the Fiscal Year Ended September 30,

	2019	2018
Land	\$ 1,411,177	\$ 1,411,177
Construction in progress	2,431,243	11,883,329
Buildings and improvements	3,123,885	3,256,494
Improvements other than buildings	7,243,267	7,696,865
Machinery and equipment	1,099,790	715,379
Infrastructure	65,972,672	56,106,600
Total	\$ 81,282,034	\$ 81,069,844

Additional information on the District's capital assets can be found in Note 6 on page 39 of this report.

Long-Term Debt

At September 30, 2019, the District's total bonded debt was \$28,506,362. Of this amount, \$13,465,000 is considered to be tax supported debt and \$14,795,000 is considered revenue supported debt. The District also has revenue notes outstanding totaling \$2,655,000.

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	A1	N/A

Laguna Madre Water District Management's Discussion & Analysis

Exhibit 9 shows the District's outstanding long-term debt as of September 30, 2019.

Additional information on the District's long-term debt can be found in Note 7 on pages 39-42 of this report.

Exhibit 9
Laguna Madre Water District
Long-Term Liabilities
For the Fiscal Year Ended September 30,

	2019	2018
Revenue notes payable	\$ 2,655,000	\$ -
General obligation tax bonds	13,495,000	14,355,000
Revenue bonds	14,795,000	10,140,000
Plus: Unamortized premium	216,362	233,006
Total bonds payable	28,506,362	24,728,006
Compensated absences	87,725	72,104
Lease payable	52,613	64,805
Net pension liability	2,212,566	1,226,822
Total long-term liabilities	\$ 33,514,266	\$ 26,091,737

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
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BASIC FINANCIAL STATEMENTS

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

<i>September 30, 2019</i>	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	AMI Meter Project Fund	Total	Adjustments (Note 2)	Statement of Net Position
Assets								
Cash and cash equivalents	\$ 2,488,236	\$ -	\$ -	616,104	\$ -	\$ 3,104,340	\$ -	\$ 3,104,340
Certificates of deposit	4,016,074	-	-	250,000	-	4,266,074	-	4,266,074
Receivables, (net):								
Taxes	-	-	115,775	-	-	115,775	-	115,775
Accounts	819,871	-	-	-	-	819,871	-	819,871
Miscellaneous	38,322	-	-	-	-	38,322	-	38,322
Internal receivables	344,794	-	-	-	-	344,794	(344,794)	-
Inventories	471,459	-	-	-	240,806	712,265	-	712,265
Prepaid expenses	56,961	-	-	-	-	56,961	-	56,961
Restricted assets:								
Cash and cash equivalents	197,723	101,019	1,374,300	4,880,316	372,322	6,925,680	-	6,925,680
Certificates of deposit	405,556	2,015,251	2,108,512	363,199	-	4,892,518	-	4,892,518
Capital assets not being depreciated:								
Non-depreciable	-	-	-	-	-	-	3,842,420	3,842,420
Depreciable, net	-	-	-	-	-	-	77,439,614	77,439,614
Bond insurance	-	-	-	-	-	-	44,263	44,263
Total Assets	8,838,996	2,116,270	3,598,587	6,109,619	613,128	21,276,600	80,981,503	102,258,103
Deferred Outflows of Resources								
Deferred charge on refunding	-	-	-	-	-	-	122,577	122,577
Deferred outflows related to pension	-	-	-	-	-	-	1,088,100	1,088,100
Total Deferred Outflows of Resources	-	-	-	-	-	-	1,210,677	1,210,677
Liabilities								
Accounts payable	229,401	-	-	78,579	450	308,430	-	308,430
Accrued payroll	133,089	-	-	-	-	133,089	-	133,089
Accrued expenses	251,833	-	-	-	-	251,833	-	251,833
Accrued interest	-	-	-	-	-	-	176,162	176,162
Retainage payable	-	-	-	-	10,219	10,219	-	10,219
Internal payables	-	-	-	185,521	159,273	344,794	(344,794)	-
Customer deposits	470,157	-	-	-	-	470,157	-	470,157
Non-current liabilities:								
Due within one year								
Lease payable	-	-	-	-	-	-	12,565	12,565
Notes payable	-	-	-	-	-	-	255,000	255,000
Bonds payable	-	-	-	-	-	-	1,735,000	1,735,000
Due in more than one year								
Lease payable	-	-	-	-	-	-	40,048	40,048
Notes payable	-	-	-	-	-	-	2,400,000	2,400,000
Bonds payable	-	-	-	-	-	-	26,771,362	26,771,362
Compensated absences	-	-	-	-	-	-	87,725	87,725
Net pension liability	-	-	-	-	-	-	2,212,566	2,212,566
Total Liabilities	1,084,480	-	-	264,100	169,942	1,518,522	33,345,634	34,864,156

<i>September 30, 2019</i>	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	AMI Meter Project Fund	Total	Adjustments (Note 2)	Statement of Net Position
Deferred Inflows of Resources								
Unavailable tax revenue	-	-	63,831	-	-	63,831	(63,831)	-
Deferred inflows related to pension	-	-	-	-	-	-	126,300	126,300
Total Deferred Inflows of Resources	-	-	63,831	-	-	63,831	62,469	126,300
FUND BALANCE/NET POSITION								
Fund balances:								
Non-spendable:								
Prepaid items	56,961	-	-	-	-	56,961	(56,961)	-
Inventories	471,459	-	-	-	240,806	712,265	(712,265)	-
Restricted:								
Meter deposits	482,885	-	-	-	-	482,885	(482,885)	-
Debt service	-	-	3,534,756	-	-	3,534,756	(3,534,756)	-
Capital projects	-	-	-	4,979,415	202,380	5,181,795	(5,181,795)	-
Committed:								
Capital projects	120,394	-	-	-	-	120,394	(120,394)	-
Emergency reserve	-	2,116,270	-	-	-	2,116,270	(2,116,270)	-
Assigned:								
Capital projects	-	-	-	866,104	-	866,104	(866,104)	-
Unassigned	6,622,817	-	-	-	-	6,622,817	(6,622,817)	-
Total fund balances	7,754,516	2,116,270	3,534,756	5,845,519	443,186	19,694,247	(19,694,247)	-
Total liabilities, deferred inflows, and fund balances	\$ 8,838,996	\$ 2,116,270	\$ 3,598,587	\$ 6,109,619	\$ 613,128	\$ 21,276,600		
Net Position (Government-wide):								
Net investment in capital assets							55,075,512	55,075,512
Restricted for:								
Debt service							3,598,587	3,598,587
Unrestricted							9,804,225	9,804,225

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 Balances

<i>September 30, 2019</i>	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	AMI Meter Project Fund	Total	Adjustments (Note 2)	Statement of Activities
Revenues:								
Water services	\$ 5,524,968	\$ -	\$ -	\$ -	\$ -	\$ 5,524,968	\$ -	\$ 5,524,968
Wastewater services	4,359,557	-	-	-	-	4,359,557	-	4,359,557
Other water sales	160,970	-	-	-	-	160,970	-	160,970
Late fees	76,454	-	-	-	-	76,454	-	76,454
Tap fees	185,998	-	-	-	-	185,998	-	185,998
Property taxes	-	-	1,352,436	-	-	1,352,436	(4,680)	1,347,756
Penalties and interest	-	-	28,176	-	-	28,176	-	28,176
Investment earnings	133,279	49,704	84,308	30,715	9,294	307,300	-	307,300
Other	274,140	-	6	-	-	274,146	-	274,146
Total revenues	10,715,366	49,704	1,464,926	30,715	9,294	12,270,005	(4,680)	12,265,325
Expenditures/expenses:								
Service operations:								
Administration	300,599	22	-	-	13	300,634	-	300,634
Contracted services	208,641	-	49,754	-	-	258,395	-	258,395
Insurance	224,854	-	-	-	-	224,854	-	224,854
Professional fees	380,732	-	-	-	-	380,732	-	380,732
Payroll and benefits	4,448,060	-	-	-	-	4,448,060	(405,228)	4,042,832
Net pension expense	-	-	-	-	-	-	510,526	510,526
Utilities	779,470	-	-	-	-	779,470	-	779,470
Materials and supplies	1,182,774	-	-	-	-	1,182,774	-	1,182,774
Repairs and maintenance	376,224	-	-	-	-	376,224	-	376,224
Other	68,338	-	-	-	-	68,338	-	68,338
Capital outlay	543,467	-	-	775,907	1,781,577	3,100,951	(3,085,009)	15,942
Debt service:								
Principal	-	-	1,850,000	-	-	1,850,000	(1,850,000)	-
Lease principal	12,192	-	-	-	-	12,192	(12,192)	-
Interest and fiscal charges	1,981	-	724,095	-	-	726,076	3,417	729,493
Bond issuance costs	-	-	-	252,334	87,145	339,479	-	339,479
Depreciation	-	-	-	-	-	-	2,872,819	2,872,819
Total expenditures/expenses	8,527,332	22	2,623,849	1,028,241	1,868,735	14,048,179	(1,965,667)	12,082,512
Excess (deficiency) of revenues over expenditures								
	2,188,034	49,682	(1,158,923)	(997,526)	(1,859,441)	(1,778,174)	1,960,987	182,813

<i>September 30, 2019</i>	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	AMI Meter Project Fund	Total	Adjustments (Note 2)	Statement of Activities
Other financing sources/(uses):								
Issuance of debt	-	-	287,500	5,425,000	2,587,500	8,300,000	(8,300,000)	-
Transfers In	-	-	1,274,471	284,873	-	1,559,344	(1,559,344)	-
Transfers Out	(1,274,471)	-	-	-	(284,873)	(1,559,344)	1,559,344	-
Net other financing sources/(uses)	(1,274,471)	-	1,561,971	5,709,873	2,302,627	8,300,000	(8,300,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses								
Change in net position	913,563	49,682	403,048	4,712,347	443,186	6,521,826	(6,521,826)	182,813
Fund balance/net position:								
Beginning of the year	7,044,205	2,066,588	3,131,708	1,133,172	-	13,375,673	55,123,090	68,498,763
Prior period Adjustment	(203,252)	-	-	-	-	(203,252)	-	(203,252)
Beginning of the year-as restated	6,840,953	2,066,588	3,131,708	1,133,172	-	13,172,421	55,123,090	68,295,511
End of the year	\$ 7,754,516	\$ 2,116,270	\$ 3,534,756	\$ 5,845,519	\$ 443,186	\$ 19,694,247	\$ 48,784,077	\$ 68,478,324

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. In evaluating the District as a reporting entity, management has considered all potential component units in accordance with Section 2100: *Defining the Financial Reporting Entity* of the Governmental Accounting Standards Board (GASB) Codification. 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.

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- The *emergency preparation and recovery fund* is used for preparing for and recovering from man-made or natural disasters or emergencies.
- 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.
- The *AMI Meter project fund* accounts for resources restricted for the District's meter replacement project.

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.

Laguna Madre Water District Notes to Financial Statements

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 fund. 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.

Laguna Madre Water District Notes to Financial Statements

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.

Accounts Receivable

Unbilled receivables – An amount for unbilled revenue is recorded for services rendered, but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated subsequent to fiscal year end.

Allowance for doubtful accounts – Accounts receivable have been reported net of the allowance for doubtful accounts. Accounts receivable in excess of 120 days are subject to being considered as uncollectible.

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.

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain assets of the District are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Customer deposit accounts – Used to account for customer deposits which are refunded upon termination of service with the District and satisfaction of all obligations due.

Bond proceed and debt service accounts – Includes certain proceeds from issuance of general obligation and revenue bonds, as well as certain resources set aside for the repayment of general obligation and revenue bonds.

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 acquisition 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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds and is recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Codification Section 130: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 be 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.

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.

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.

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, etc.), 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.

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

New Accounting Standards Adopted

In the current fiscal year, the District implemented GASB Statement No. 88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. The implementation of this statement did not result in any change in the District's financial statements. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The notes to the financial statements have been updated to reflect the implementation of GASB No. 88.

Recently Issued Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In January, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Laguna Madre Water District Notes to Financial Statements

Recently Issued Accounting Pronouncements (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The District is evaluating the requirements of the above statements and the impact on reporting.

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

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)	\$ 19,694,247
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	81,282,034
Deferred outflow of resources related to pension earnings are not recognized in governmental funds; however, they are recorded in the statement of net position under full accrual accounting	1,088,100
Deferred inflow of resources related to pension earnings are not recognized in governmental funds; however, they are recorded in the statement of net position under full accrual accounting	(126,300)
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	63,831
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore are not reported in the funds.	(33,523,588)
Net position of governmental activities (pages 18-19)	\$ 68,478,324

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 \$81,282,034 are as follows:

Land	\$ 1,411,177
Construction in progress	2,431,243
Buildings and improvements, net	3,123,885
Improvements other than buildings, net	7,243,267
Machinery and equipment, net	1,099,790
Infrastructure, net	65,972,672
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ 81,282,034

**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 net pension liability and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(33,523,588) difference are as follows:

General obligation bonds payable	\$ (2,655,000)
General obligation bonds payable	(13,495,000)
Revenue bonds payable	(14,795,000)
Deferred charge on refunding (to be amortized as interest expense)	122,577
Capital lease payable	(52,613)
Bond insurance (to be amortized over life of debt)	44,263
Issuance premiums (to be amortized as interest expense)	(216,362)
Accrued interest payable	(176,162)
Compensated absences	(87,725)
Net pension liability	(2,212,566)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ (33,523,588)
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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)	\$	6,521,826
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.		212,190
The calculated pension expense on the statement of activities was greater than the cash pension contributions reported in the funds and therefore decreases net position.		(89,677)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(4,680)
Compensated absences are reported in the statement of activities when earned. As they do not require the use of current financial resources, they are not reported as expenditures on governmental funds until they have matured. This is the amount of compensated absences reported in the statement of activities in the prior year that has matured in the current year.		(15,621)
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 position. 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.		(6,437,808)
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		(3,417)
Change in net position of governmental activities (page 20-21)	\$	182,813

**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)

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 \$212,190 difference are as follows:

Capital outlay	\$ 3,085,009
Depreciation expense	(2,872,819)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ 212,190

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 \$6,437,808, is the net effect of these differences in the treatment of long-term debt and related items. The details of the \$6,437,808 difference are as follows:

Debt issued:	
Revenue notes	\$ 2,875,000
Revenue bonds	5,425,000
Principal repayments:	
Revenue bonds	(220,000)
General obligation bonds	(860,000)
Revenue bonds	(770,000)
Capital lease	(12,192)
<hr/>	
Net adjustment to increase <i>changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 6,437,808

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 \$3,417 difference are as follows:

Accrued interest	\$	312
Amortization of deferred charge on refunding		16,344
Amortization of bond premiums		(16,644)
Amortization of bond insurance		3,405
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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>	\$	3,417
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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 of 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.

Laguna Madre Water District Notes to Financial Statements

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2019 are classified in the accompanying financial statements as follows:

Unrestricted – cash and cash equivalents	\$	3,104,340
Unrestricted – investments (certificates of deposit)		4,266,074
Total	\$	7,370,414

Restricted deposits and investments as of September 30, 2019 consist of the following:

Restricted – cash and cash equivalents	\$	6,925,680
Restricted – investments (certificates of deposit)		4,892,518
Total	\$	11,818,198

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 and certificates of deposit in excess of FDIC insurance are covered with collateralized securities or letters of credit held by financial institutions in the District’s name. As of September 30, 2019, the District’s market value of pledged securities was \$21,770,484 and the bank deposits requiring collateral were \$12,036,329. The bank balances as of September 30, 2019 were fully insured by FDIC coverage and collateral pledged by financial institutions.

NOTE 5: RECEIVABLES

Receivables at September 30, 2019, including the applicable allowance for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Total
Taxes	\$ -	\$ 121,869	\$ -	\$ 121,869
Accounts	828,235	-	-	828,235
Miscellaneous	38,322	-	-	38,322
Gross receivables	866,557	121,869	-	988,426
Less: Allowance for uncollectible	(8,364)	(6,094)	-	(14,458)
Net total receivables	\$ 858,193	\$ 115,775	\$ -	\$ 973,968

Laguna Madre Water District Notes to Financial Statements

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2019 was as follows:

Governmental activities:	Balance 9/30/2018	Additions	Retirements	Reclassifications	Balance 9/30/2019
<i>Capital assets not being depreciated:</i>					
Land and easements	\$ 1,411,177	\$ -	\$ -	\$ -	\$ 1,411,177
Construction in progress	11,883,329	2,557,423	-	(12,009,509)	2,431,243
Total capital assets, not being depreciated	13,294,506	2,557,423	-	(12,009,509)	3,842,420
<i>Capital assets being depreciated:</i>					
Buildings & improvements	4,505,856	-	-	-	4,505,856
Improvements other than buildings	9,549,985	10,073	(16,908)	-	9,543,150
Machinery and equipment	2,480,319	509,934	(280,193)	-	2,710,060
Infrastructure	101,469,748	7,579	-	12,009,509	113,486,836
Total capital assets being depreciated	118,005,908	527,586	(297,101)	12,009,509	130,245,902
<i>Less Accumulated Depreciation for:</i>					
Buildings & improvements	(1,249,362)	(132,609)	-	-	(1,381,971)
Improvements other than buildings	(1,853,120)	(463,671)	16,908	-	(2,299,883)
Machinery and equipment	(1,764,940)	(125,523)	280,193	-	(1,610,270)
Infrastructure	(45,363,148)	(2,151,016)	-	-	(47,514,164)
Total accumulated depreciation	(50,230,570)	(2,872,819)	297,101	-	(52,806,288)
Total capital assets being depreciated, net	67,775,338	(2,345,233)	-	12,009,509	77,439,614
Governmental activities capital assets, net	\$ 81,069,844	\$ 212,190	\$ -	\$ -	\$ 81,282,034

Depreciation expense for the fiscal year was \$2,872,819.

NOTE 7: LONG-TERM DEBT and LIABILITIES

Bonds Payable

General Obligation Bonds

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, Cuates pump station and pipeline improvements, and improvements to Water Plant No. 2.

Laguna Madre Water District Notes to Financial Statements

NOTE 7: LONG-TERM DEBT and LIABILITIES (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, Cuates pump station and pipeline improvements, and improvements to Water Plant No. 2.

Waterworks and Sewer System Revenue Bonds

The District issues revenue bonds to provide funds for the acquisition and construction of major capital facilities. Principal and interest on the revenue bonds are payable from the net revenues derived from the operation of the District's water and wastewater system. The District currently has three general obligation tax bond issues outstanding.

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 Waterworks and Sewer System Revenue Bonds, Series 2016 for the purpose of 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.

On June 26, 2019, the District issued \$5,425,000 Waterworks and Sewer System Revenue Bonds, Series 2019. The notes are issued to provide for the payment of costs associated with the issuance and for making improvements and extensions to the District's Waterworks and Sewer system.

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, 2019, the following outstanding bonds are considered defeased:

Series	Ending Balance
2007	\$4,375,000

Laguna Madre Water District Notes to Financial Statements

NOTE 7: LONG-TERM DEBT and LIABILITIES (Continued)

Bonds Payable (Continued)

The following is a schedule of bonds outstanding at September 30, 2019:

	Bond Issue	Interest Rate	Balance at September 30, 2019
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 15, 2012. Maturity date June 1, 2032.		2% - 5%	\$ 11,540,000
\$2,580,000 Unlimited Tax Bonds, Series 2016. Issued March 2, 2016. Maturity date June 1, 2032.		2.29%	1,955,000
Total General Obligation Tax Bonds			13,495,000
\$6,345,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. Issued April 1, 2015. Maturity date March 1, 2027.		2.64%	4,395,000
\$5,815,000 Waterworks and Sewer System Revenue Bonds, Series 2016. Issued October 16, 2016. Maturity date March 1, 2036.		.01% - 1.37%	4,975,000
\$5,425,000 Waterworks and Sewer System Revenue Bonds, Series 2019. Issued June 26, 2019. Maturity date March 1, 2034		.01% - .82%	5,425,000
Total Waterworks and Sewer System Revenue Bonds			\$ 14,795,000

Notes Payable

On November 28, 2018, the District issued \$2,875,000 Waterworks and Sewer System Revenue Notes, Series 2018. The notes are issued to provide for the payment of costs associated with the issuance, for making improvements to the District's Waterworks and Sewer System and to deposit funds in the debt reserve account.

Principal and interest on the revenue notes are payable from the net revenues derived from the operation of the District's water and wastewater system.

The following is a schedule of bonds outstanding at September 30, 2019:

	Note Issue	Interest Rate	Balance at September 30, 2019
\$2,875,000 Waterworks and Sewer System Revenue Notes, Series 2018. Issued November 28, 2018. Maturity date March 1, 2028.		3.25%	\$ 2,655,000

Laguna Madre Water District Notes to Financial Statements

NOTE 7: LONG-TERM DEBT and LIABILITIES (Continued)

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2019 are as follows:

	09/30/18	Additions	Reductions	09/30/19	Due Within One Year
Notes payable					
Revenue Notes, Series 2018	\$ -	\$ 2,875,000	\$ 220,000	\$ 2,655,000	\$ 255,000
Total notes from direct borrowings	-	2,875,000	220,000	2,655,000	255,000
Bonds payable					
General Obligation Tax Bonds	14,355,000	-	860,000	13,495,000	885,000
Revenue Bonds	10,140,000	5,425,000	770,000	14,795,000	850,000
Plus: unamortized premium	233,006	-	16,644	216,362	-
Total bonds payable	24,728,006	5,425,000	1,646,644	28,506,362	1,735,000
Net pension liability	1,226,822	985,744	-	2,212,566	-
Lease payable	64,805	-	12,192	52,613	12,565
Compensated Absences	72,104	147,204	131,583	87,725	-
Total long-term liabilities	\$ 26,091,737	\$ 9,432,948	\$ 2,010,419	\$ 33,514,266	\$ 2,002,565

The debt service fund makes the payments on the bonds and revenue notes 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 notes and bonds payable are as follows:

Year Ending September 30,	Revenue Notes		Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	255,000	82,144	850,000	180,528	885,000	460,132
2021	265,000	73,694	860,000	167,093	905,000	434,718
2022	275,000	64,919	875,000	152,935	935,000	408,704
2023	285,000	55,819	890,000	137,918	970,000	374,126
2024	295,000	46,394	905,000	122,085	995,000	346,233
2025-2029	1,280,000	84,825	5,115,000	373,048	5,450,000	1,251,493
2030-2034	-	-	4,665,000	148,406	3,355,000	270,630
2035-2036	-	-	635,000	8,687	-	-
	\$ 2,655,000	\$ 407,794	\$ 14,795,000	\$ 1,290,699	\$ 13,495,000	\$ 3,546,035

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.

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 2018 and 2017, respectively. The contribution rate payable by the employee members for the calendar years 2018 and 2017 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.

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

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Employees covered by benefit terms

At December 31, 2018, the following employees were covered by the benefit terms:

	Number of Employees
Inactive employees or beneficiaries currently receiving benefits	51
Inactive employees entitled to but not yet receiving benefits	37
Active employees	79
Total	167

Actuarial assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.9%, average over career, including inflation
Investment rate of return	8.00%, net of pension plan investment expense

Mortality rates were based on the following:

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

All actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016 except where required to be different by GASB 68.

Laguna Madre Water District Notes to Financial Statements

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

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.

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.

Laguna Madre Water District Notes to Financial Statements

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

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.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is expected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, a discount rate of 8.10% is used. This rate reflects the long-term assumed rate the long-term assumed rate of return on assets for purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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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 2019 information for a 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 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 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	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (*3)	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities – Developed Markets	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities – Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment –Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index (*4)	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (*5)	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

(*1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(*2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 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.

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

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Changes in the Net Pension Liability

The District's net pension liability was measured as of December 31, 2018, 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, 2017	\$ 12,912,363	\$ 11,685,540	\$ 1,226,823
Changes for the year:			
Service cost	341,103	-	341,103
Interest on total pension liability (*1)	1,045,191	-	1,045,191
Effect of plan changes (*2)	-	-	-
Effect of economic/demographic gains or losses	(7,701)	-	(7,701)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(98,855)	(98,855)	-
Benefit payments	(614,797)	(614,797)	-
Administrative expenses	-	(9,128)	9,128
Member contributions	-	224,015	(224,015)
Net investment income	-	(218,720)	218,720
Employer contributions	-	398,232	(398,232)
Other (*3)	-	(1,549)	1,549
Balances as of December 31, 2018	\$ 13,577,304	\$ 11,364,738	\$ 2,212,566

(*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.

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**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	\$ 15,425,825	\$ 13,577,304	\$ 12,027,548
Fiduciary net position	11,364,737	11,364,738	11,364,737
Net pension liability/(asset)	\$ 4,061,088	\$ 2,212,566	\$ 662,811

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, 2019, The District recognized pension expense of \$510,526. 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	\$ 126,300	\$ 15,736
Changes in assumptions	-	35,663
Net difference between projected and actual earnings	-	715,572
Contributions made subsequent to measurement date (*1)	N/A	321,130
Total deferred inflows/outflows of resources related to pensions	\$ 126,300	\$ 1,088,101

(*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, 2020.

Laguna Madre Water District Notes to Financial Statements

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>		
2019	\$	253,716
2020		69,851
2021		86,216
2022		232,171
2023		(1,283)
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, 2019, employees of the District were covered by a health, dental, and life insurance plan (the "Plan"). The District paid premiums of \$663.54 per month per employee to the Plan for health insurance and \$38.53 per month per employee to the Plan for dental, vision and life insurance. Employees, at their option, 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 contract between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions. The latest financial statements for United Healthcare are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). During the current year, the Texas Department of Public Safety disallowed \$203,252 of expenditures related to FEMA funding, reimbursed in previous years. The amount of any other expenditures from current or prior years which may be disallowed by grantors cannot be determined at this time although the District expects such amounts not recorded, if any, to be immaterial.

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

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of September 30, 2019 were as follows:

	Due From Other Funds	Due To Other Funds
Major Funds:		
General Fund	\$ 344,794	\$ -
Capital Projects Fund	-	185,521
AMI Meter Project Fund	-	159,273
Total	\$ 334,794	\$ 344,794

The balances primarily result from the time lag between the dates the 1) transactions are recorded in the accounting system and 2) payments between funds are made.

Interfund transfers for the year ended September 30, 2019 were as follows:

	Transfers		Net
	In	Out	
Major Funds:			
General Fund	\$ -	\$ 1,274,471	\$ (1,274,471)
Debt Service Fund	1,274,471	-	1,274,471
Capital Projects Fund	284,873	-	284,873
AMI Meter Project Fund	-	284,873	(284,873)
Total	\$ 1,559,344	\$ 1,559,344	\$ -

During the year, transfers were 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) to reimburse the capital projects fund for expenses paid in the prior year that are financed by the revenue notes proceeds.

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, 2019, 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

Laguna Madre Water District Notes to Financial Statements

NOTE 13: MAJOR COMMITMENTS

As of September 30, 2019, the District has committed certain funds for major construction projects and capital acquisitions. The construction projects and capital acquisitions are as follows:

Projects/Capital Acquisitions:	Amount committed:
Lift Stations Rehabilitation	\$ 5,425,000
Tarpon Ave. & Island Ave. Water line and Sewer Reconstruction	585,000
Total	\$ 6,010,000

NOTE 14: CAPITAL LEASE COMMITMENTS

During fiscal year 2016, the District entered into a lease purchase agreement relating to the acquisition of a jetter truck. The agreement qualifies as a capital lease. The lease purchase agreement provides for an eight-year lease in the principal amount of \$101,445 at an interest rate not to exceed 3.057% per annum, with a bargain purchase option of \$1 at the end of the lease term.

The equipment purchased under this capital lease agreement is included in capital assets in the government-wide financial statements, net of accumulated depreciation. As of September 30, 2019, the total cost is \$101,445 and the total accumulated depreciation is \$23,670.

The future minimum leases obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

Year ending September 30,	
2020	14,174
2021	14,174
2022	14,174
2023	14,174
Total minimum lease payments	56,696
Less: amount representing interest	(4,083)
Present value of minimum lease payments	\$ 52,613

NOTE 15: SUBSEQUENT EVENTS

During the current year, management recorded a \$203,252 prior period adjustment to correct an overstatement of grant revenues received in prior years. The prior period adjustment reduced fund balance/net position. A corresponding increase for the amount due back to the agency that provided the funds is reflected in accrued liabilities.

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

Laguna Madre Water District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
General Fund – Budget and Actual
For the Fiscal Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Water services	\$ 5,468,497	\$ 5,468,497	\$ 5,524,968	\$ 56,471
Wastewater services	4,236,421	4,236,421	4,359,557	123,136
Other water sales	145,476	145,476	160,970	15,494
Late fees	60,000	60,000	76,454	16,454
Tap fees	200,000	200,000	185,998	(14,002)
Investment earnings	70,000	70,000	133,279	63,279
Miscellaneous	150,000	150,000	274,140	124,140
Total revenues	10,330,394	10,330,394	10,715,366	384,972
Expenditures:				
Service operations:				
Administration	386,826	388,734	300,599	88,135
Contracted services	284,715	280,465	208,641	71,824
Insurance	254,424	259,084	224,854	34,230
Professional fees	235,000	474,935	380,732	94,203
Payroll and benefits	4,621,449	4,483,400	4,448,060	35,340
Utilities	715,050	779,620	779,470	150
Materials and supplies	1,227,955	1,271,964	1,182,774	89,190
Repairs and maintenance	375,765	386,750	376,224	10,526
Other	80,865	79,798	68,338	11,460
Capital outlay				
Capital Outlay	191,552	567,729	543,467	24,262
Lease principal	-	-	12,192	(12,192)
Interest and fiscal charges	-	-	1,981	(1,981)
Total expenditures	8,373,601	8,972,479	8,527,332	445,147
Excess (deficiency) of revenues over expenditures	1,956,793	1,357,915	2,188,034	830,119
Other financing sources/uses:				
Transfers-internal activities	(1,956,793)	(1,956,793)	(1,274,471)	682,322
Net other financing sources/uses	(1,956,793)	(1,956,793)	(1,274,471)	682,322
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (598,878)	913,563	\$ 1,512,441
Fund balance:				
Beginning of the year			7,044,205	
Prior period adjustment			(203,252)	
Beginning of the year - as restated			6,840,953	
End of the year			\$ 7,754,516	

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 of 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,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 341,103	\$ 355,712	\$ 351,190	\$ 369,415	\$ 349,544
Interest on total pension liability	1,045,191	994,321	934,915	909,356	857,968
Effect of plan changes	-	-	-	(86,128)	-
Effect of assumption changes or inputs	-	13,650	-	79,690	-
Effect of economic/demographic (gains) or losses	(7,701)	(6,355)	(63,218)	(252,109)	94,417
Benefit payments/refunds of contributions	(713,652)	(715,704)	(631,962)	(763,280)	(588,331)
Net change in total pension liability	664,941	641,624	590,925	256,944	713,598
Total pension liability, beginning	12,912,363	12,270,739	11,679,814	11,422,870	10,709,272
Total pension liability, ending (a)	\$ 13,577,304	\$ 12,912,363	\$ 12,270,739	\$ 11,679,814	\$ 11,422,870
Fiduciary Net Position					
Employer contributions	\$ 398,232	\$ 365,000	\$ 346,147	\$ 350,544	\$ 369,552
Member contributions	224,015	182,504	177,303	177,449	187,581
Investment income net of investment expenses	(218,720)	1,508,763	725,930	(25,081)	643,747
Benefit payments/refunds of contributions	(713,652)	(715,704)	(631,962)	(763,280)	(588,331)
Administrative expenses	(9,128)	(7,771)	(7,894)	(7,167)	(7,549)
Other	(1,549)	(2,244)	(73,059)	(25,499)	15,773
Net change in in fiduciary net position	(320,802)	1,330,548	536,465	(293,034)	620,773
Fiduciary net position, beginning	11,685,540	10,354,992	9,818,527	10,111,561	9,490,788
Fiduciary net position, ending (b)	\$ 11,364,738	\$ 11,685,540	\$ 10,354,992	\$ 9,818,527	\$ 10,111,561
Net pension liability / (asset), ending = (a) - (b)	\$ 2,212,566	\$ 1,226,823	\$ 1,915,747	\$ 1,861,287	\$ 1,311,309
Fiduciary net position as a % of total pension liability	83.70%	90.50%	84.39%	84.06%	88.52%
Pensionable covered payroll	\$ 2,790,690	\$ 2,607,198	\$ 2,532,895	\$ 2,534,988	\$ 2,679,726
Net pension liability as a % of covered payroll	79.28%	47.06%	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 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%
2018	399,387	399,387	-	2,707,139	14.8%
2019	435,873	435,873	-	3,035,711	14.4%

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:	12.7 years (based on contribution rate calculated in 12/31/2017 valuation)
Asset Valuation Method:	5-year smoothed market
Inflation:	2.75%
Salary Increases:	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return:	8.00%, net of administrative and investment expenses, including inflation.
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 :	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions:	2015: New inflations, mortality and other assumptions reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions:	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

OTHER SUPPLEMENTARY INFORMATION

Laguna Madre Water District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Debt Service Fund – Budget and Actual
For the Fiscal Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Property taxes	\$ 1,362,701	\$ 1,362,701	\$ 1,352,436	\$ (10,265)
Penalties and interest	19,352	19,352	28,176	8,824
Investment earnings	39,405	39,405	84,308	44,903
Miscellaneous	-	-	6	6
Total revenues	1,421,458	1,421,458	1,464,926	43,468
Expenditures:				
Contracted service	56,056	56,056	49,754	6,302
Debt service:				
Principal	2,120,000	2,120,000	1,850,000	270,000
Interest	848,782	848,782	724,095	124,687
Total expenditures	3,024,838	3,024,838	2,623,849	400,989
Excess (deficiency) of revenues over expenditures	(1,603,380)	(1,603,380)	(1,158,923)	444,457
Other financing sources/(uses):				
Issuance of debt	-	-	287,500	287,500
Transfers-internal activities	1,622,500	1,622,500	1,274,471	(348,029)
Net other financing sources/uses	1,622,500	1,622,500	1,561,971	(60,529)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 19,120	\$ 19,120	403,048	\$ 383,928
Fund balance:				
Beginning of the year			3,131,708	
End of the year			\$ 3,534,756	

**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 7,513.4 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 \$3,312,253,813.

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**

1. Services Provided by the District during the Fiscal Year:

- | | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |

- Participates in joint venture, regional system, and/or wastewater service
 Other (specify): _____

2. Retail Service Providers

a. Retail rates for a 5/8" meter

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over minimum	Usage levels
WATER	\$ 13.12	4,000	N	\$ 2.64	4,001 to 10,000
				\$ 4.16	10,001 to 20,000
				\$ 5.94	20,001 plus
WASTEWATER *	\$ 16.15	3,000		\$ 3.28	3,001 to 4,500
				\$ 5.08	4,501 to 7,500
				\$ 7.20	7,501 plus
Surcharge:	\$ 0.005	-			

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water: \$29.10 Wastewater: \$31.06

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

For the year ended September 30, 2019

b. Water and Wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	5,183	4,979	-	-
1"	1,177	1,186	-	-
2"	308	298	-	-
4"	23	74	-	-
6"	17	34	-	-
8"	2	1	-	-
10"	0	0	-	-
16"	1	1	-	-
<hr/>				
Total Water:	6,711	6,573	-	-
Total Wastewater:	5,732	5,649	-	-

3. Total water consumption during the fiscal year:

Gallons pumped into system: 1,286,386,000

Gallons billed to customers: 1,270,283,287

Water accountability ratio (gallons billed/gallons pumped); 98.75%

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 the District 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 the District is located: Port Isabel, South Padre Island, Town of Laguna Vista
 Are board members appointed by an office outside the District? No
 If yes, by whom? N/A

**Laguna Madre Water District
TSI – 2. General Fund Expenditures**

Personnel (Including Benefits)	\$ 4,448,060
Professional Fees:	
Auditing	25,000
Legal	62,481
Engineering	210,237
Financial Advisor	40,115
IT Consultant	42,899
Contracted Services	179,816
Utilities	779,470
Repairs and Maintenance	376,224
Administrative Expenditures	
Office Supplies	46,997
Insurance	224,854
Other Administrative Expenditures	253,602
Capital Outlay:	
Capitalized Assets	527,525
Expenditures not Capitalized	15,942
Solid Waste Disposal	28,825
Materials and Supplies	1,182,774
Other Expenditures	82,511
Total Expenditures	\$ 8,527,332

Number of persons employed by the District: 80 Full-Time

Laguna Madre Water District
TSI – 3. Temporary Investments

For the year ended September 30, 2019

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund				
Certificate of Deposit	6901621149	1.90%	8/20/2020	\$ 205,556
Certificate of Deposit	600-5000-5897	2.62%	2/17/2020	1,013,281
Certificate of Deposit	6775971434	2.05%	2/18/2020	1,500,000
Certificate of Deposit	6775971159	2.05%	2/18/2020	200,000
Certificate of Deposit	01-72351085	1.94%	8/27/2020	1,502,793
Total General Fund				4,421,630
Debt Service Fund				
Certificate of Deposit	01-72197259	2.02%	2/18/2020	525,719
Certificate of Deposit	01-72680374	1.93%	5/20/2020	481,782
Certificate of Deposit	01-72819511	2.62%	11/18/2019	507,070
Certificate of Deposit	01-7324312	2.62%	11/18/2019	253,535
Certificate of Deposit	01-72466122	2.02%	2/18/2020	340,406
Total Debt Service Fund				2,108,512
Capital Projects Fund				
Certificate of Deposit	01-72487573	2.02%	2/18/2020	363,199
Certificate of Deposit	6775970691	2.05%	2/18/2020	250,000
Total Capital Projects Fund				613,199
Emergency Fund				
Certificate of Deposit	600-5000-8598	2.63%	5/20/2020	1,013,331
Certificate of Deposit	01-72959057	2.00%	5/20/2020	1,001,920
Total Emergency Fund				2,015,251
Total - All Funds				\$9,158,592

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

For the year ended September 30, 2019	Debt Service Taxes
Taxes Receivable Beginning of Year	\$ 123,328
2018 Original Tax Levy	1,345,615
Tax Roll Adjustments	(1,081)
Total to be accounted for	1,467,862
Tax Collections:	
Current Year	1,319,261
Prior Year	26,732
Total Collections	1,345,993
Taxes Receivable, End of Year	\$ 121,869

Taxes Receivable, By Years	
2008 and prior	\$ 53,126
2009	4,360
2010	4,059
2011	4,108
2012	4,343
2013	4,900
2014	2,543
2015	4,567
2016	5,609
2017	9,849
Current Year - 2018	24,405
Taxes Receivable, End of Year	\$ 121,869

September 30,	2018	2017	2016	2015
Property Valuations:				
Land	\$ 1,313,284,408	\$ 1,314,065,195	\$ 1,297,763,711	\$ 1,315,897,695
Improvements	2,118,006,379	2,062,696,293	2,041,412,552	2,040,487,372
Personal Property	147,270,960	147,044,871	99,482,510	100,511,349
Total Property Valuations	\$ 3,578,561,747	\$ 3,523,806,359	\$ 3,438,658,773	\$ 3,456,896,416

Tax Rates Per \$100 Valuation:				
Debt Service Tax Rate	\$ 0.040101	\$ 0.043860	\$ 0.045020	\$ 0.044643
Original Tax Levy:	\$ 1,345,615	\$ 1,452,755	\$ 1,451,488	\$ 1,445,227
Percent of Taxes Collected To Taxes Levied				
	98.04%	98.31%	99.04%	98.58%

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

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>
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>\$ 11,540,000</u>	<u>\$ 3,267,113</u>	<u>\$ 14,807,113</u>

Waterworks and Sewer System Revenue Refunding Bonds, 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>
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>\$ 4,395,000</u>	<u>\$ 479,754</u>	<u>\$ 4,874,754</u>

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

Unlimited Tax Bonds, Series 2016

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>June 1,</u>	<u>June 1 & Dec 1</u>	<u>Total</u>
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>\$ 1,955,000</u>	<u>\$ 278,922</u>	<u>\$ 2,233,922</u>

Waterworks and Sewer System 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>
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>\$ 4,975,000</u>	<u>\$ 471,623</u>	<u>\$ 5,446,623</u>

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

Waterworks and Sewer System Revenue Notes, Series 2018

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>March 1,</u>	<u>Mar 1 & Sept 1</u>	<u>Total</u>
2020	255,000	82,144	337,144
2021	265,000	73,694	338,694
2022	275,000	64,919	339,919
2023	285,000	55,819	340,819
2024	295,000	46,394	341,394
2025	305,000	36,644	341,644
2026	315,000	26,569	341,569
2027	325,000	16,169	341,169
2028	335,000	5,444	340,444
	<u>\$ 2,655,000</u>	<u>\$ 407,794</u>	<u>\$ 3,062,794</u>

Waterworks and Sewer System Revenue Bonds, Series 2019

Due During Fiscal Year	Principal Due	Interest Due	
<u>Ending</u>	<u>March 1,</u>	<u>Mar 1 & Sept 1</u>	<u>Total</u>
2020	70,000	29,184	99,184
2021	65,000	29,161	94,161
2022	65,000	29,106	94,106
2023	70,000	29,011	99,011
2024	70,000	28,878	98,878
2025	75,000	28,714	103,714
2026	75,000	28,523	103,523
2027	80,000	28,298	108,298
2028	680,000	26,916	706,916
2029	1,020,000	23,414	1,043,414
2030	625,000	19,576	644,576
2031	625,000	16,138	641,138
2032	630,000	12,153	642,153
2033	635,000	7,629	642,629
2034	640,000	2,624	642,624
	<u>\$ 5,425,000</u>	<u>\$ 339,322</u>	<u>\$ 5,764,322</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	Principal Due	Principal Due	Interest Due	Total
<u>Ending</u>	<u>June 1,</u>	<u>June 1 & Dec 1</u>	<u>March 1,</u>	<u>Mar 1 & Sept 1</u>	<u>Total</u>
2020	885,000	460,132	1,105,000	262,671	2,712,803
2021	905,000	434,718	1,125,000	240,786	2,705,504
2022	935,000	408,705	1,150,000	217,854	2,711,559
2023	970,000	374,123	1,175,000	193,737	2,712,860
2024	995,000	346,233	1,200,000	168,479	2,709,712
2025	1,020,000	316,601	1,230,000	142,077	2,708,678
2026	1,055,000	285,130	1,260,000	114,629	2,714,759
2027	1,090,000	252,133	1,290,000	86,096	2,718,229
2028	1,125,000	217,353	1,305,000	63,451	2,710,804
2029	1,160,000	180,277	1,310,000	51,620	2,701,897
2030	1,205,000	140,830	920,000	44,681	2,310,511
2031	1,055,000	86,000	925,000	37,911	2,103,911
2032	1,095,000	43,800	930,000	30,400	2,099,200
2033	-	-	940,000	22,171	962,171
2034	-	-	950,000	13,244	963,244
2035	-	-	315,000	6,495	321,495
2036	-	-	320,000	2,192	322,192
	<u>\$ 13,495,000</u>	<u>\$ 3,546,035</u>	<u>\$ 17,450,000</u>	<u>\$ 1,698,493</u>	<u>\$ 36,189,528</u>

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

For the year ended September 30, 2019

	Bond Issues						
	Series 2012 Tax	Series 2015 Revenue	Series 2016 Tax	Series 2016 Revenue	Series 2018 Revenue	Series 2019 Revenue	Series Total
Interest rates	2.0 - 5.0%	2.64%	2.29%	.01 - 1.37%	3.25%	.00 - 1.00%	
Dates Interest Payable	6/1, 12/1	3/1, 9/1	6/1, 12/1	3/1, 9/1	3/1, 9/1	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	3/1/2019 to 3/1/2028	3/1/2019 to 3/1/2034	
Bonds outstanding at beginning of current year	\$ 12,245,000	\$ 4,885,000	\$ 2,110,000	\$ 5,255,000	\$ -	\$ -	\$ 24,495,000
Bonds sold during Current Year	-	-	-	-	2,875,000	5,425,000	8,300,000
Bonds refunded	-	-	-	-	-	-	-
Bonds retired	705,000	490,000	155,000	280,000	220,000	-	\$1,850,000
Bonds outstanding at end of current year	\$ 11,540,000	\$ 4,395,000	\$ 1,955,000	\$ 4,975,000	\$ 2,655,000	\$ 5,425,000	\$ 30,945,000
Interest paid during the Fiscal Year	\$ 436,513	\$ 122,496	\$ 48,319	\$ 41,916	\$ 67,282	\$ 5,270	\$ 721,796

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
 Series 2018 Revenue: Zions Bancorporation, NA Houston Texas
 Series 2019 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 September 30, 2019: \$3,482,812

Average annual Debt Service payment (principal & interest) for remaining term of all debt: \$1,064,398

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

For the year ended September 30,	2019	%	2018	%	2017	%	2016	%	2015	%
GENERAL FUND:										
REVENUE:										
Water Service	5,524,968	51.6%	5,321,051	55.5%	5,481,245	56.3%	5,060,601	54.7%	4,596,999	57.3%
Wastewater Service	4,359,557	40.7%	3,650,725	38.1%	3,713,416	38.1%	3,496,971	37.8%	3,063,040	38.2%
Other Water sales	160,970	1.5%	119,597	1.2%	134,503	1.4%	124,459	1.3%	-	0.0%
Late fees	76,454	0.7%	62,631	0.7%	58,683	0.6%	76,976	0.8%	63,063	0.8%
Tap Connection fees	185,998	1.7%	237,154	2.5%	162,892	1.7%	134,898	1.5%	167,919	2.1%
Interest on investments	133,279	1.2%	89,446	0.9%	33,305	0.3%	14,836	0.2%	5,195	0.1%
Miscellaneous	274,140	2.6%	104,782	1.1%	154,440	1.6%	350,709	3.8%	126,676	1.6%
TOTAL REVENUES	10,715,366	100.0%	9,585,386	100.0%	9,738,484	100.0%	9,259,450	100.0%	8,022,892	100.0%
EXPENDITURES:										
Professional fees	380,732	3.6%	206,570	2.2%	337,497	3.5%	388,806	4.2%	346,321	4.3%
Payroll and benefits	4,448,060	41.5%	3,908,057	40.8%	3,657,751	37.6%	3,687,855	39.8%	3,668,463	45.7%
Utilities	779,470	7.3%	690,553	7.2%	738,882	7.6%	815,276	8.8%	804,031	10.0%
Materials and supplies	1,182,774	11.0%	936,154	9.8%	955,147	9.8%	1,162,026	12.5%	986,917	12.3%
Repairs and Maintenance	376,224	3.5%	292,266	3.0%	275,616	2.8%	341,278	3.7%	280,086	3.5%
Other expenditures	802,432	7.5%	799,857	8.3%	722,134	7.4%	196,707	2.1%	206,859	2.6%
Capital outlay	543,467	5.1%	139,642	1.5%	206,388	2.1%	417,400	4.5%	367,244	4.6%
Lease principal	12,192	0.1%	11,831	0.1%	11,480	0.1%	13,329	0.1%	-	0.0%
Interest and fiscal charges	1,981	0.0%	2,343	0.0%	2,694	0.0%	844	0.0%	-	0.0%
TOTAL EXPENDITURES	8,527,332	79.6%	6,987,273	72.9%	6,907,589	70.9%	7,023,521	75.9%	6,659,921	83.0%
EXCESS REVENUES OVER (UNDER)										
EXPENDITURES	2,188,034	20.4%	2,598,113	27.1%	2,830,895	29.1%	2,235,929	24.1%	1,362,971	17.0%

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,	2019	%	2018	%	2017	%	2016	%	2015	%
DEBT SERVICE FUND:										
REVENUES:										
Property taxes	1,352,436	92.3%	1,454,793	95.7%	1,473,558	96.7%	1,480,550	97.0%	1,348,644	96.0%
Penalty and Interest	28,176	1.9%	25,284	1.7%	30,409	2.0%	35,959	2.4%	51,639	3.7%
Interest on investments	84,308	5.8%	39,839	2.6%	19,365	1.3%	7,062	0.5%	3,663	0.3%
Miscellaneous	6	0.0%	61	0.0%	12	0.0%	2,115	0.1%	671	0.0%
TOTAL REVENUES	1,464,926	100.0%	1,519,977	100.0%	1,523,344	100.0%	1,525,686	100.0%	1,404,617	100.0%
EXPENDITURES:										
Tax collection expense	33,307	2.3%	35,367	2.3%	35,827	2.4%	42,532	2.8%	33,636	2.4%
Appraisal charge	16,447	1.1%	18,647	1.2%	18,605	1.2%	15,707	1.0%	30,221	2.2%
Debt service, interest and fees	2,574,095	175.7%	2,278,266	149.9%	2,279,584	149.6%	1,939,105	127.1%	2,504,931	178.3%
Bond issue costs	-	0.0%	-	0.0%	-	0.0%	0	0.0%	140,385	10.0%
TOTAL EXPENDITURES	2,623,849	179.1%	2,332,280	153.4%	2,334,016	153.2%	1,997,344	130.9%	2,709,173	192.9%
EXCESS REVENUES OVER (UNDER)										
EXPENDITURES	(1,158,923)	(79.1%)	(812,303)	(53.4%)	(810,672)	(53.2%)	(471,658)	(30.9%)	(1,304,556)	(92.9%)
TOTAL ACTIVE RETAIL WATER										
CONNECTIONS	6,573		6,446		6,369		6,278		6,319	
TOTAL ACTIVE RETAIL WASTE WATER										
CONNECTIONS	5,649		5,557		5,519		5,466		5,413	

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

For the year ended September 30, 2019

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): October 13, 2017

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 9/30/2019	Expense Reimbursement 9/30/2019	Title at Year End
BOARD MEMBERS				
Scott Friedman PO Box 3897 South Padre Island, TX 78597	11/16 - 11/20	\$ -	\$ 1,415.46	Chairman
Herb Houston 4 Whooping Crane Laguna Vista, TX 78578	9/17 - 11/20	\$ -	\$ 426.54	Vice-Chairman
Alex Avalos 212 W Esperanza / PO Box 2867 South Padre Island, TX 78596	9/17 - 11/20	\$ -	\$ 530.46	Secretary
Adam Lalonde 26 Whooping Crane Dr Laguna Vista, TX 78578	11/18 - 11/22	\$ -	\$ -	Director
Jason Starkey 117 Sea Grape Laguna Vista, TX 78578	11/18 - 11/22	\$ -	\$ -	Director

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

For the year ended September 30, 2019

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2019	Expense Reimbursement 9/30/2019	Title at Year End
KEY ADMINISTRATIVE PERSONNEL				
Carlos J. Galvan, Jr. 1636 Oklahoma Street Port Isabel, TX 78578	2001	\$ -	\$ 993.01	General Manager
Charles Ortiz 5587 Garden Breeze Ct. Brownsville, TX 78526	2013	\$ -	\$ 553.83	District Engineer
Eduardo Salazar 33097 Washington Ave. Port Isabel, TX 78578	2018	\$ -	\$ 1,077.35	Director of Finance
Robert Gomez 1425 Catherine Cir. Brownsville, TX 78520	2017	\$ -	\$ 1,309.89	Director of Operations
CONSULTANTS				
Beatty Bangle Strama 400 West 15 St Ste 1450 Austin, TX 78701	2015	\$ 21,441.51	\$ -	Attorney
Fryer & Hansen 1352 West Pecan Blvd. McAllen, TX 78501	2019	\$ 32,181.06	\$ -	Attorney
Estrada Hinojosa & Co., Inc. 1717 Main Street Dallas, TX 75201	1999	\$ 10,000.00	\$ -	Financial Advisor
G5 Internet Services 311-D Vogel Drive Mercedes, TX 78570	2012	\$ 44,694.74	\$ -	IT Consultant

OTHER INFORMATION

Laguna Madre Water District Top Ten Taxpayers

For the year ended September 30, 2019

Owner ID	Taxpayer Name	Master Value	Taxable Value
642489	SAN ROMAN WIND I LLC	\$ 48,802,690	\$ 48,802,690
324942	AEP TEXAS INC	\$ 18,293,210	\$ 18,293,210
562039	SPI BEACH WATER RESORT WATERPARK LLC	\$ 10,882,174	\$ 10,882,174
580926	AGORA USA LP	\$ 10,312,156	\$ 10,312,156
336660	PENINSULA ISLAND RESORT & SPA LLC	\$ 10,310,357	\$ 10,310,357
541018	BAHIA MAR TOWER LLC	\$ 9,365,606	\$ 9,365,606
526932	SAPPHIRE VP LP ATTN STEPHEN SWAN	\$ 9,000,000	\$ 9,000,000
553568	AFFILIATED HOSPITALITY LLC	\$ 7,939,537	\$ 7,939,537
37416	AEP TEXAS CENTRAL CO	\$ 7,187,195	\$ 7,187,195
100731	SPI MANAGEMENT CO	\$ 6,700,888	\$ 6,700,888

Laguna Madre Water District Top Ten Rate Payers

For the year ended September 30, 2019

Account Name	Address	City	Amount
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	\$ 470,621
TEXAS PACK INC	508 PORT ROAD	PORT ISABEL	\$ 259,752
CAMERON COUNTY PARKS SYSTEM	33174 STATE PARK ROAD 100	SOUTH PADRE ISLAND	\$ 182,212
SSPIBR, LTD DBA PEARL SO PADRE	310 PADRE BLVD	SOUTH PADRE ISLAND	\$ 176,177
SCHLITTERBAHN SO PADRE	200 PADRE BLVD	SOUTH PADRE ISLAND	\$ 173,129
SOUTH PADRE ISLAND GOLF COURSE	1 GOLF HOUSE RD	LAGUNA VISTA	\$ 120,979
SAPPHIRE CONDOS	310-A PADRE BLVD	SOUTH PADRE ISLAND	\$ 93,340
SAIDA ROYALE	400 PADRE BLVD	SOUTH PADRE ISLAND	\$ 78,549
BRIDGEPOINT CONDOS	334 PADRE BLVD	SOUTH PADRE ISLAND	\$ 72,618
SAIDA TOWERS II	400 PADRE BLVD	SOUTH PADRE ISLAND	\$ 70,427

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COMPLIANCE SECTION

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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, 2019, 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 February 25, 2020.

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 opinions 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

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 findings and responses. Laguna Madre Water District's response was not subject 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
February 25, 2020

Laguna Madre Water District Schedule of Findings and Responses

Finding:

2019-001 – (Significant Deficiency)

Criteria:

The District's accounting and financial reporting process should involve systematic procedures to ensure account balances are properly stated and that the financial statements are prepared in accordance with accounting standards generally accepted in the United States of America applicable to state and local governments (GAAP).

Condition:

Numerous year-end adjustments and reconciliations were not completed in a timely manner.

Context:

In conducting the audit of the District, numerous journal entries (through February 2020) were provided by management in order to properly adjust account balances and reconcile the general ledger balances with subsidiary support and/or other evidence. These adjustments mainly involved property, plant and equipment, construction in process, inventory and capital outlay expenditures accounts.

Cause:

The District's lack of detailed written financial accounting and closing procedures caused the closing process to be delayed at year-end. Tasks necessary to properly state all account balances, particularly those related to capital assets (including construction in process), inventory and capital outlay expenditures are not clearly defined. Capital asset supporting schedules, including a roll-forward of construction in process and analysis of projects completed during the year, were not completed and updated until more than three and half months after year-end. The results of physical inventory counts were not reconciled to the account balances per the general ledger.

Effect:

The inability to maintain a set of accurate accounting records presents a significant deficiency in controls over the accounting process. This increases the risk that the financial statements can be misstated, including interim financial information that is reported throughout the fiscal year.

Laguna Madre Water District Schedule of Findings and Responses (Continued)

Recommendation:

The District should develop detailed written accounting procedures, including specific annual closing procedures and/or checklists. Year-end accumulation of data and reconciliations should be completed timely. If deemed necessary, the District should evaluate the cost/benefit relationship of hiring additional staff and/or reassigning responsibilities among Finance Department staff, the objective of which would be to free up time for the Finance Department to properly complete the required tasks to properly reconcile and adjust the accounting records in a timely manner.

Views of Responsible Officials and Corrective Action Plan:

We agree with the auditors' comments. We will develop detailed written accounting procedures, including specific annual closing procedures and/or checklists by the end of the second quarter of 2020. We have also reassigned responsibilities among Finance Department staff to free up time for the Finance Department to properly complete the required tasks to properly reconcile and adjust the accounting records in a timely manner.