

Laguna Madre Water District

FINANCIAL STATEMENTS And SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended September 30, 2016



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RIGGS &
INGRAM

CPAs and Advisors

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**Laguna Madre Water District
Table of Contents
December 31, 2016**

INTRODUCTORY SECTION

Organizational Chart 1

Annual Filing Affidavit 2

FINANCIAL SECTION

Independent Auditors' Report 3

Management's Discussion and Analysis 6

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Fund Balance Sheet 18

Statement of Activities and Governmental Funds Revenues, Expenditures,
and Changes in Net Position 20

Notes to the Basic Financial Statements 22

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Schedule of Revenues, Expenditures, and Changes in Fund Balance – General
Fund – Budget and Actual 49

Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balance –
General Fund – Budget and Actual 50

Schedule of Changes Net Pension Liability and Related Ratios 51

Schedule of Employer Contributions 52

OTHER SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Debt
Service Fund – Budget and Actual 53

TEXAS SUPPLEMENTARY INFORMATION (TSI) SECTION

Notes Required by the Water District Accounting Manual 54

TSI – 1. Services and Rates 55

TSI – 2. General Fund Expenditures 57

TSI – 3. Temporary Investments 58

(Continued)



**Laguna Madre Water District
Table of Contents
December 31, 2016**

TEXAS SUPPLEMENTARY INFORMATION (TSI) SECTION (Continued)	
TSI – 4. Taxes Levied and Receivable	59
TSI – 5. Long-Term Debt Service Requirements by Years	60
TSI – 6. Changes in Long-Term Bonded Debt	64
TSI – 7. Comparative Schedule of Revenues and Expenditures – General Fund And Debt Service Fund – Five Years	65
TSI – 8. Board Members, Key Personnel and Consultants	67
OTHER INFORMATION	
Top Ten Taxpayers	69
Top Ten Rate Payers	70
COMPLIANCE SECTION	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	71
Schedule of Audit Findings Reported in Accordance with <i>Government Auditing Standards</i>	73



INTRODUCTORY SECTION



Laguna Madre Water District Organizational Chart

Board Members

Scott D. Friedman
William J. Thomas
Doyle Wells
Rick Wells
Jeff Keplinger

Chairman
Vice Chairman
Secretary
Director
Director

Administration

Carlos Galvan, Jr.
Sanjuana Garcia
Victor Valdez
Charles Ortiz, P.E.

General Manager
Director of Finance
Director of Operations
District Engineer

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF CAMERON

I, SCOTT D. FRIEDMAN of the

(Name of Duty Authorized District Representative)

LAGUNA MADRE WATER DISTRICT hereby

(Name of District)

Swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 12 day of JULY, 2017, its annual audit report for the Twelve Month Period ended September 30, 2016

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

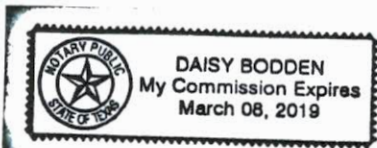
Date: JULY 12, 2017

By: [Signature]

SCOTT D. FRIEDMAN, CHAIRMAN

(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this 12 day of JULY, 2017.



[Signature]
(Signature of Notary)

My Commission Expires on: 03/08/2019, Notary Public in the State of Texas.

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FINANCIAL SECTION

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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 ("District"), as of and for the year ended September 30, 2016, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2016, 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 49 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information, Texas Supplementary Information section, and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, 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 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
June 28, 2017

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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 management's discussion and analysis (MD&A) of the District's financial performance for the fiscal year ended September 30, 2016. The MD&A should be read in conjunction with the District's financial statements which follow this section.

Financial Highlights

- In the Government-Wide Statement of Net Position, the total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources for the fiscal year ended September 30, 2016, by \$67,372,480. Of this amount \$7,775,770 (considered unrestricted) may be used to meet the District's ongoing obligations to citizens and creditors. The net investment in capital assets of the District is \$56,700,141.
- The restricted portion of the Government-Wide net position includes amounts restricted for debt service requirements in the amount of \$2,896,569.
- The fund balance in the General Fund increased by \$496,485. The ending fund balance for the fiscal year ended September 30, 2016, was \$6,267,812. The combined General Fund and Emergency fund balances are \$8,281,599.
- For the fiscal year ended September 30, 2016, the District's fund balances reported a combined ending fund balance of \$17,969,578.

Overview of the Financial Statements

This annual report consists of the MD&A, the basic financial statements, notes to the basic financial statements, required supplementary information, other supplementary information, Texas Supplementary Information (TSI) section and another information section.

The basic financial statements are comprised of three components:

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

Laguna Madre Water District Management's Discussion & Analysis

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

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

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

Additional Information Regarding the District's Fund Financial Statements:

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

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

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

The Districts basic financial statements can be found on pages 18-21.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

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

The District also provides other supplementary information concerning the District's debt service fund budgetary schedule, Texas Supplementary Information schedules as required by the Texas Commission on Environmental Quality, and other information deemed appropriate. The supplementary information, the Texas supplementary information, and other information can be found on pages 53-70 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, 2016, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$67,372,480. By far, the largest portion of the District's net position (84.2%) 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, \$2,896,569 (4.3%), represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net position, totaling \$7,775,770, may be used to meet the District's ongoing obligations to its citizens and creditors.

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

Laguna Madre Water District Management's Discussion & Analysis

Exhibit 1 Laguna Madre Water District Governmental Activities – Net Position

September 30,	2016	2015
Current and other assets	\$ 18,956,580	\$ 17,477,691
Capital assets	72,472,922	71,621,696
Total assets	91,429,502	89,099,387
Total deferred outflows of resources	1,302,655	628,469
Long-term liabilities outstanding	22,823,244	21,081,566
Other liabilities	2,326,342	1,999,745
Total liabilities	25,149,586	23,081,311
Total deferred inflows of resources	210,091	-
Net position		
Net Investment in capital assets	56,700,141	57,274,656
Restricted	2,896,569	2,225,351
Unrestricted	7,775,770	7,146,538
Total net position	\$ 67,372,480	\$ 66,646,545

Governmental Activities

During the current fiscal year, net position for governmental activities increased by \$725,935. The majority of the increase is attributed to an increase in rates for water and sewer services. As indicated in Exhibit 2 charges for services comprised 82.4% and property taxes comprised 13.7% of all revenues. Service operations comprised 66.9% of all expenses; interest on long-term debt, 7.5%; and depreciation expense, 25.6%.

Laguna Madre Water District Management's Discussion & Analysis

Exhibit 2 Laguna Madre Water District Governmental Activities – Changes in Net Position

For the year ended September 30,	2016	2015
Revenues:		
Program Revenues		
Charges for services	\$ 8,893,905	\$ 7,660,039
Intergovernmental	11,148	110,000
General Revenues		
Property taxes	1,481,825	1,330,662
Investment earnings	51,789	18,778
Other	352,824	295,266
Total revenue	10,791,491	9,414,745
Expenses		
Service operations	6,734,599	6,310,211
Interest on long-term debt and fiscal expense	752,361	809,455
Depreciation expense	2,578,596	2,305,309
Total expenses	10,065,556	9,424,975
Other Income/Expenses		
Gain/loss on sale of assets	-	4,500
Increase in net position	725,935	(5,730)
Net Position, Beginning	66,646,545	67,597,592
Prior Period Adjustment	-	(945,317)
Net Position, Ending Restated	\$ 67,372,480	\$ 66,646,545

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, 2016 The District's governmental funds reported combined ending fund balances of \$17,969,578, an increase of \$1,397,183 in comparison with the prior year. Approximately 24.2% of this amount (\$4,346,708) 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 (\$481,524), 2) restricted for particular purposes (\$8,595,985), 3) committed for particular purposes (\$3,098,310), 4) assigned for particular purposes (\$1,447,051).

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 \$4,346,708, while total fund balance increased to \$6,267,812. The fund balance of the District's general fund increased by \$496,485 primarily due to an increase in water and sewer service rates charged to customers.

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

Exhibit 3
Fund Balance of the General Fund

Fiscal Year	Revenues	Expenditures Plus Transfers Out	Fund Balance	Percentage of Fund Balance In Relation to Revenues	Percentage of Fund Balance In Relation to Expenditures Plus Transfer Out
April					
2007	7,835,052	7,301,697	4,667,549	59.6%	63.9%
2008	8,237,727	6,632,006	6,273,270	76.2%	94.6%
2009	7,174,800	8,474,029	5,239,329	73.0%	61.8%
2010	7,443,217	7,387,754	4,511,569	60.6%	61.0%
2011	8,100,426	7,466,198	5,087,406	62.8%	68.1%
2012	8,268,463	7,151,218	6,284,270	76.0%	87.9%
2013	8,738,728	10,335,855	4,697,639	53.8%	45.4%
September					
2013*	\$ 3,813,789	\$ 3,137,960	\$ 5,373,468	140.9%	171.2%
2014	7,459,276	7,345,323	5,487,421	73.5%	74.7%
2015	8,022,892	7,743,486	5,771,327	71.9%	74.5%
2016	9,259,450	8,864,410	6,267,812	67.7%	70.7%

*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 year ended September 30,	2016	2015
Revenues		
Water services	\$ 5,060,601	\$ 4,596,999
Wastewater services	3,496,971	3,063,040
Other water sales	124,459	-
Penalties and interest	76,976	63,063
Tap fees	134,898	167,919
Investment earnings	14,836	5,195
Miscellaneous	350,709	126,676
Total revenues	9,259,450	8,022,892
Expenditures		
Service operation	6,591,948	6,292,677
Lease principal	13,329	
Lease interest	844	
Capital outlay	417,400	367,244
Total expenditures	7,023,521	6,659,921
Excess of Revenues Over Expenditures	2,235,929	1,362,971
Other Financing Sources (Uses)		
Proceeds from sale of assets	-	4,500
Capital lease proceeds	101,445	-
Transfer to other funds	(1,840,889)	(1,083,565)
Total other financing sources (uses)	(1,739,444)	(1,079,065)
Net Change in Fund Balances	496,485	283,906
Fund Balance Beginning,	5,771,327	5,487,421
Fund Balance Ending	\$ 6,267,812	\$ 5,771,327

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 year ended September 30,	2016	2015
Revenues		
Property taxes and penalties/interest	\$ 1,516,509	\$ 1,400,283
Investment earnings	7,062	3,663
Miscellaneous	2,115	671
Total revenues	1,525,686	1,404,617
Expenditures		
Bond principal	1,280,000	1,660,000
Bond interest and fiscal agent fees	659,105	728,909
Bond issuance costs	-	140,385
Advance refunding escrow agent	-	117,701
Contracted services	58,239	62,178
Total expenditures	1,997,344	2,709,173
Excess (Deficiency) of Revenues Over (under) Expenditures	(471,658)	(1,304,556)
Other Financing Sources (Uses)		
Refunding bonds issued	-	6,345,000
Payment to refunded bond escrow agent	-	(6,211,115)
Transfer from other funds	621,447	664,583
Total other financing sources	621,447	798,468
Net Change in Fund Balances	149,789	(506,088)
Fund Balance Beginning,	2,746,780	3,252,868
Fund Balance Ending	\$ 2,896,596	\$ 2,746,780

As shown in Exhibit 5 above, the debt service fund for the fiscal year ended September 30, 2016, had a fund balance of \$2,896,596; this amount represented an increase of \$149,789 compared to prior year. The total debt service fund balance is restricted for payment of debt service. The District's ad valorem tax rate during fiscal year 2016 was \$0.044643 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 year ended September 30,	2016	2015
Revenues		
Intergovernmental	\$ 11,148	\$ 110,000
Investment Earnings	23,212	7,715
Total revenues	34,360	117,715
Expenditures		
Other	142	-
Capital Outlay	3,020,762	2,238,166
Bond issuance costs	68,668	-
Total expenditures	3,089,572	2,238,166
Excess (Deficiency) of Revenues Over (under) Expenditures	(3,055,212)	(2,120,451)
Other Financing Sources (Uses)		
Issuance of Debt	2,580,000	-
Transfer from Other Funds	1,219,442	418,982
Total other financing sources	3,799,442	418,982
Net Change in Fund Balances	744,230	(1,701,469)
Fund Balance Beginning,	6,047,180	7,748,649
Fund Balance Ending	\$ 6,791,410	\$ 6,047,180

General Fund Budgetary Highlights

For the fiscal year ended September 30, 2016, the District passed its General Fund expenditure budget of \$7,907,161. An amendment to the budget was necessary to reflect an increase in expected revenues of \$1,377,165. The expected increase in revenues is due to water and wastewater rate increases that were implemented during March 2016. The final amended budget reflected total expenditures of \$9,284,331

Differences between the original budget and the final amended budget are shown on page 49.

Laguna Madre Water District Management's Discussion & Analysis

Capital Asset and Debt Administration

The District's investment in capital assets for its governmental activities as shown in Exhibit 7 as of September 30, 2016, amounts to \$72,472,922. The net increase in capital assets for the fiscal year ended September 30, 2016 was \$851,226.

Major Projects ---General Fund

- The District continues to administer meter testing programs to ensure the consumption for the larger size (4", 6" and 8") commercial meter is accurate. Meters held in inventory were used to repair and replace inaccurate meters. A total of 119 meters were installed during FY 2016 in the amount of \$94,380.

Major Projects---Capital Projects Fund

- Water Distribution Pipe Line continues improvement in Construction in Progress in the amount of \$2,156,615
- Reuse Improvements Port Isabel Waste Water Treatment Plant in Construction in Progress in the amount of \$266,061.
- Water and Wastewater System Development efforts are in Progress in the amount of \$596,797.
- Growth is expected in Improvements at the Port Isabel Water and Wastewater Treatment Phase I and Beach Blvd Water Line Rehab

The depreciation expense for the year ended September 30, 2016 for the governmental activities totaled \$2,578,596.

Exhibit 7
Laguna Madre Water District
Capital Assets
(Net of depreciation)

September 30,	2016	2015
Land	\$ 1,302,714	\$ 1,302,714
Construction in progress	4,660,157	1,578,077
Buildings and improvements	3,437,922	3,568,582
Improvements other than buildings	8,069,439	8,524,809
Machinery and equipment	648,344	528,342
Infrastructure	54,354,346	56,119,172
Total	\$ 72,472,922	\$ 71,621,696

Laguna Madre Water District Management's Discussion & Analysis

Additional information on the District's capital assets can be found in Note 6 on page 36 of this report.

Long-Term Debt

At September 30, 2016, the District's total bonded debt was \$22,101,294. Of this amount, \$16,010,000 are considered to be tax supported debt and \$5,825,000 are considered revenue notes.

Exhibit 8 shows the District's outstanding long-term debt as of September 30, 2016.

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

Exhibit 8
Laguna Madre Water District
Long-Term Liabilities

September 30,	2016	2015
General obligation tax bonds	\$ 16,010,000	\$ 14,255,000
Revenue bonds	5,825,000	6,280,000
Plus: Unamortized premium	266,294	282,938
Total bonds payable	22,101,294	20,817,938
Compensated absences	69,051	62,319
Lease payable	88,116	-
Net pension liabilities	1,861,286	1,311,309
Total long-term liabilities	\$ 24,119,747	\$ 22,191,566

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	Aa3	A



Laguna Madre Water District Management's Discussion & Analysis

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
Sanjuana Garcia, Finance Director
105 Port Road
Port Isabel, Texas 78578

Phone Number: 956.943.2626
Fax Number: 956.943.6662
E-mail: sgarcia@lmwd.org
Web Page: lagunamadrewater.com



BASIC FINANCIAL STATEMENTS

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

September 30, 2016	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
ASSETS							
Cash and cash equivalents	\$ 2,430,890	\$ -	\$ -	\$ 1,447,081	\$ 3,877,971	\$ -	\$ 3,877,971
Certificates of deposit	500,000	-	-	-	500,000	-	500,000
Receivables, (net):							
Taxes	-	-	131,236	-	131,236	-	131,236
Accounts	715,838	-	-	4,978	720,816	-	720,816
Miscellaneous	52,241	-	-	-	52,241	-	52,241
Internal receivables	392,540	-	-	-	392,540	(392,540)	-
Inventories	424,431	-	-	-	424,431	-	424,431
Prepaid items	57,093	-	-	-	57,093	-	57,093
Restricted assets:							
Cash and cash equivalents	1,382,691	2,013,787	2,356,050	5,884,041	11,636,569	-	11,636,569
Certificates of deposit	1,001,745	-	500,000	-	1,501,745	-	1,501,745
Capital assets not being depreciated:							
Land	-	-	-	-	-	1,302,714	1,302,714
Construction in progress	-	-	-	-	-	4,660,157	4,660,157
Capital assets net of accumulated depreciation:							
Buildings and improvements	-	-	-	-	-	3,437,922	3,437,922
Improvements other than buildings	-	-	-	-	-	8,069,439	8,069,439
Personal property	-	-	-	-	-	648,344	648,344
Infrastructure	-	-	-	-	-	54,354,346	54,354,346
Bond insurance	-	-	-	-	-	54,478	54,478
Total assets	6,957,469	2,013,787	2,987,286	7,336,100	19,294,642	72,134,860	91,429,502
Deferred Outflows of Resources							
Deferred charge on refunding	-	-	-	-	-	171,609	171,609
Deferred outflows related to pension	-	-	-	-	-	1,131,046	1,131,046
Total deferred outflows of resources	-	-	-	-	-	1,302,655	1,302,655

September 30, 2016	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
LIABILITIES							
Accounts payable	188,013	-	-	92,820	280,833	-	280,833
Accrued payroll	102,350	-	-	-	102,350	-	102,350
Accrued interest	-	-	-	-	-	188,032	188,032
Internal payables	-	-	-	392,540	392,540	(392,540)	-
Liabilities payable from restricted assets	399,294	-	-	59,330	458,624	-	458,624
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,296,503	1,296,503
Due in more than one year	-	-	-	-	-	20,961,958	20,961,958
Net pension liability	-	-	-	-	-	1,861,286	1,861,286
Total liabilities	689,657	-	-	544,690	1,234,347	23,915,239	25,149,586
Deferred inflows of Resources							
Unavailable tax revenue	-	-	90,717	-	90,717	(90,717)	-
Deferred inflows related to pension	-	-	-	-	-	210,091	210,091
Total deferred inflows of resources	-	-	90,717	-	90,717	119,374	210,091
FUND BALANCE/NET POSITION							
Fund balances:							
Non-spendable:							
Prepaid items	57,093	-	-	-	57,093	(57,093)	-
Inventories	424,431	-	-	-	424,431	(424,431)	-
Restricted:							
Meter deposits	355,057	-	-	-	355,057	(355,057)	-
Debt service	-	-	2,896,569	-	2,896,569	(2,896,569)	-
Capital projects	-	-	-	5,344,359	5,344,359	(5,344,359)	-
Committed:							
Capital projects	1,027,634	-	-	-	1,027,634	(1,027,634)	-
Annexation	32,800	-	-	-	32,800	(32,800)	-
Sale of land	24,089	-	-	-	24,089	(24,089)	-
Emergency reserve	-	2,013,787	-	-	2,013,787	(2,013,787)	-
Assigned:							
Capital projects	-	-	-	1,447,051	1,447,051	(1,447,051)	-
Unassigned	4,346,708	-	-	-	4,346,708	(4,346,708)	-
Total fund balances	6,267,812	2,013,787	2,896,569	6,791,410	17,969,578	(17,969,578)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 6,957,469	\$ 2,013,787	\$ 2,987,286	\$ 7,336,100	\$ 19,294,642		
Net Position (Government-wide):							
Net investment in capital assets						56,700,141	56,700,141
Restricted for debt service						2,896,569	2,896,569
Unrestricted						7,775,770	7,775,770
Total net position						\$ 67,372,480	\$ 67,372,480

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

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

For the Year Ended September 30, 2016	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Activities
Revenues							
Water services	5,060,601	\$ -	\$ -	\$ -	\$ 5,060,601	-	\$ 5,060,601
Wastewater services	3,496,971	-	-	-	3,496,971	-	3,496,971
Other water sales	124,459	-	-	-	124,459	-	124,459
Property taxes	-	-	1,480,550	-	1,480,550	(34,684)	1,445,866
Penalties and interest	76,976	-	35,959	-	112,935	-	112,935
Intergovernmental	-	-	-	11,148	11,148	-	11,148
Tap fees	134,898	-	-	-	134,898	-	134,898
Investment earnings	14,836	6,679	7,062	23,212	51,789	-	51,789
Miscellaneous	350,709	-	2,115	-	352,824	-	352,824
Total revenues	9,259,450	6,679	1,525,686	34,360	10,826,175	(34,684)	10,791,491
Expenditures/Expenses							
Service operations:							
Professional fees	388,806	-	-	-	388,806	-	388,806
Payroll and benefits	3,687,855	-	-	-	3,687,855	(337,824)	3,350,031
Net pension expense	-	-	-	-	-	413,754	413,754
Utilities	815,276	-	-	-	815,276	-	815,276
Materials and supplies	1,162,026	-	-	-	1,162,026	-	1,162,026
Repairs and maintenance	341,278	-	-	-	341,278	-	341,278
Other	196,707	-	-	142	196,849	-	196,849
Capital outlay	417,400	-	-	3,020,762	3,438,162	(3,429,822)	8,340
Debt service:							
Principal	-	-	1,280,000	-	1,280,000	(1,280,000)	-
Lease principal	13,329	-	-	-	13,329	(13,329)	-
Interest and fiscal charges	844	-	659,105	-	659,949	23,744	683,693
Bond issuance costs	-	-	-	68,668	68,668	-	68,668
Contracted service	-	-	58,239	-	58,239	-	58,239
Depreciation	-	-	-	-	-	2,578,596	2,578,596
Total expenditures/expenses	7,023,521	-	1,997,344	3,089,572	12,110,437	(2,044,881)	10,065,556
Excess (deficiency) of revenues over expenditures	2,235,929	6,679	(471,658)	(3,055,212)	(1,284,262)	2,010,197	725,935

	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Activities
<i>For the Year Ended September 30, 2016</i>							
Other financing sources/(uses):							
Issuance of debt	-	-	-	2,580,000	2,580,000	(2,580,000)	-
Capital lease proceeds	101,445	-	-	-	101,445	(101,445)	-
Transfers In	-	-	621,447	1,219,442	1,840,889	(1,840,889)	-
Transfers Out	(1,840,889)	-	-	-	(1,840,889)	1,840,889	-
Net other financing sources/(uses)	(1,739,444)	-	621,447	3,799,442	2,681,445	(2,681,445)	-
Net change in fund balance	496,485	6,679	149,789	744,230	1,397,183	(1,397,183)	
Change in net position						725,935	725,935
Beginning of the year	5,771,327	2,007,108	2,746,780	6,047,180	16,572,395	50,074,150	66,646,545
End of the year	\$ 6,267,812	\$ 2,013,787	\$ 2,896,569	\$ 6,791,410	\$ 17,969,578	\$ 49,402,902	\$ 67,372,480

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 establishing 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. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Also, the asset replacement fund is reported within the general fund and accounts for the replacement of the District's assets.
- 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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.

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.

Budgets

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets (Continued)

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.

Investments

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

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

Inventories and Prepaid Items

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

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

Use of Estimates

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

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Capital Assets

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

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

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

Net Position Flow Assumption

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

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

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), 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain resources in the general fund are classified as restricted assets because they are maintained in separate accounts and their use is limited by applicable regulatory requirements. The debt service fund reports resources accumulated for debt services payments and resources set aside to subsidize potential deficiencies from the District's operation that could adversely affect debt service payments as restricted assets on the balance sheet. Amounts reported as restricted assets in the District's capital projects fund represent proceeds of bond issuances that are restricted for use in the construction and development of infrastructure projects. Restricted assets reported in the District's emergency preparation and recovery fund reflect resources set aside to meet unexpected contingencies.

Pensions

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

Deferred outflows/Inflows of Resources

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a 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. This amount is recognized as an inflow of resources in the period that the amount becomes available. Deferred inflows related to pensions reported in the government-wide statement of net position result from differences between expected and actual plan experience. The deferred inflows of resources related to pension are recognized in pension expense over the average remaining service life for all active, inactive, and retired members.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with provisions of Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as terminal leave prior to retirement. The District does not recognize a liability for the sick leave benefits which become vested benefits upon termination from the Water District due to retirement. Pursuant to the personnel policy, a maximum of three hundred and sixty (360) hours of sick leave payment will be allowed, in lieu of taking such sick leave upon retirement.

Deferred Compensation Plan

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

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

Laguna Madre Water District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Discounts/Bond Premiums/Issuance Costs

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

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

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

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

Total fund balances – governmental funds (pages 18-19)	\$ 17,969,578
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	72,472,922
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	90,717
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore are not reported in the funds.	(23,160,737)
Net position of governmental activities (pages 18-19)	\$ 67,372,480

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 \$72,472,922 are as follows:

Land	\$ 1,302,714
Construction in progress	4,660,157
Buildings and improvements, net	3,437,922
Improvements other than buildings, net	8,069,439
Personal property with UAC > \$5,000, net	648,344
Infrastructure, net	54,354,346
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ 72,472,922

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

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

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

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(23,160,737) difference are as follows:

General obligation bonds payable	\$ (16,010,000)
Revenue bonds payable	(5,825,000)
Deferred charge on refunding (to be amortized as interest expense)	171,609
Capital lease payable	(88,116)
Bond insurance (to be amortized over life of debt)	54,478
Issuance premiums (to be amortized as interest expense)	(266,294)
Accrued interest payable	(188,032)
Compensated absences	(69,051)
Net pension liability	(1,861,286)
Deferred outflows related to pensions (to be amortized as net pension expense)	1,131,046
Deferred inflows related to pensions (to be amortized as net pension expense)	(210,091)
<hr/>	
Net adjustment to decrease <i>fund balance – total governmental funds</i>	
to arrive at <i>net position – governmental activities</i>	\$ (23,160,737)
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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)	\$	1,397,183
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		851,226
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Contributions to the pension plan in the current fiscal year are not included in the statement of activities.		344,556
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(34,684)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental fund, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effects on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(1,388,116)
--	--	-------------

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		(444,230)
--	--	-----------

Change in net position of governmental activities (page 20-21)	\$	725,935
--	----	---------

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 \$851,226 difference are as follows:

Capital outlay	\$	3,429,822
Depreciation expense		(2,578,596)

Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$	851,226
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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 (Continued)

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 \$1,388,116, is the net effect of these differences in the treatment of long-term debt and related items.” The details of the \$1,388,116 difference are as follows:

Debt issued or incurred:	
General obligation bond	\$ 2,580,000
Capital lease	101,445
Principal repayments:	
General obligation bonds	(825,000)
Revenue bonds	(455,000)
Capital lease	(13,329)
<hr/>	
Net adjustment to decrease <i>changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities</i>	\$ 1,388,116

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 \$444,230 difference are as follows:

Change in compensated absences	\$ 6,732
Change in accrued interest	13,489
Net pension expense	413,754
Amortization of deferred charge on refunding	16,684
Amortization of bond premiums	(16,644)
Amortization of bond insurance	10,215
<hr/>	
Net adjustment to decrease <i>changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities</i>	\$ 444,230

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 appropriate 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 after the overall total of appropriated expenditures of any fund must be approved by the Board of Directors. During the year, the budget was amended two 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. The General Manager is authorized to make adjustments within a budget, with the authorizations for both of the above annually budgeted fund's lapse at the end of the fiscal year.

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2016 are classified in the accompanying financial statements as follows:

Unrestricted – cash and cash equivalents	\$	3,877,971
Unrestricted – certificates of deposit		500,000
<hr/>		
Total	\$	4,377,971
<hr/>		

Restricted deposits and investments as of September 30, 2016 consist of the following:

Restricted – cash and cash equivalents	\$	11,636,569
Restricted – certificates of deposit		1,501,745
<hr/>		
Total	\$	13,138,314
<hr/>		

Laguna Madre Water District Notes to Financial Statements

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

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.

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. Deposit accounts in excess of FDIC insurance are covered with collateralized securities held by the financial institutions in the District’s name. As of September 30, 2016, the District’s market value of pledged securities was \$19,005,136 and the bank deposits were \$8,706,376. The bank balances as of September 30, 2016 were fully insured by FDIC coverage and collateral pledged by the financial institutions.

Laguna Madre Water District Notes to Financial Statements

NOTE 5: RECEIVABLES

Receivables at September 30, 2016 including the applicable allowance for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Total
Taxes	\$ -	\$ 138,143	\$ -	\$ 138,143
Accounts	724,202	-	4,978	729,180
Miscellaneous	52,241	-	-	52,241
Gross receivables	776,443	138,143	4,978	919,564
Less: Allowance for uncollectible	(8,364)	(6,907)	-	(15,271)
Net total receivables	\$ 768,079	\$ 131,236	4,978	\$ 904,293

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2016 was as follows:

	Balance 9/30/15	Additions	Retirements	Reclassifications	Balance 9/30/16
Government Activities:					
<i>Capital assets, not depreciated:</i>					
Land and easements	\$ 1,302,714	\$ -	\$ -	\$ -	\$ 1,302,714
Construction in progress	1,578,077	3,082,080	-	-	4,660,157
Total capital assets, not depreciated	2,880,791	3,082,080	-	-	5,962,871
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	4,422,500	-	-	-	4,422,500
Improvements other than buildings	8,993,622	-	-	-	8,993,622
Personal property, UAC = > \$5,000	1,962,697	227,273	-	-	2,189,970
Infrastructure	95,737,493	120,469	-	-	95,857,962
Total capital assets, being depreciated	111,116,312	347,742	-	-	111,464,054
<i>Less accumulated depreciated for:</i>					
Buildings and improvements	(853,918)	(130,660)	-	-	(984,578)
Improvements other than buildings	(468,813)	(455,370)	-	-	(924,183)
Personal property, UAC = > \$5,000	(1,434,355)	(107,271)	-	-	(1,541,626)
Infrastructure	(39,618,321)	(1,885,295)	-	-	(41,503,616)
Total accumulated depreciation	(42,375,407)	(2,578,596)	-	-	(44,954,003)
Total capital assets, being depreciated, net	68,740,905	(2,230,854)	-	-	66,510,051
Governmental activities Capital assets, net	\$ 71,621,696	\$ 851,226	\$ -	\$ -	\$ 72,472,922

Depreciation expense for the fiscal year was \$2,578,596.

NOTE 7: LONG-TERM DEBT

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

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

Revenue Bonds

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.

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, 2016, the following outstanding bonds are considered defeased:

Series	Ending Balance
2007	\$5,670,000

Laguna Madre Water District Notes to Financial Statements

NOTE 7: LONG-TERM DEBT (Continued)

	Bond Issue	Interest Rate	Balance at September 30, 2016
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 15, 2012. Maturity date June 1, 2032.		2% - 5%	\$ 13,600,000
\$2,580,000 Unlimited Tax Bonds, Series 2016. Issued March 2, 2016. Maturity date June 1, 2032.		2.29%	\$ 2,410,000
Total General Obligation Tax Bonds			16,010,000
\$6,345,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. Issued April 1, 2015. Maturity date March 1, 2027.		2.64%	5,825,000
Total General Obligation and Revenue Bonds			\$ 21,835,000

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2016 are as follows:

	9/30/15	Additions	Reductions	09/30/16	Due Within One Year
Bonds payable					
General Obligation Tax Bonds	\$ 14,255,000	\$ 2,580,000	\$ 825,000	\$ 16,010,000	\$ 820,000
Revenue Bonds	6,280,000	-	455,000	5,825,000	465,000
Plus: unamortized premium	282,938	-	16,644	266,294	-
Total bonds payable	20,817,938	2,580,000	1,296,644	22,101,294	1,285,000
Net pension liability	1,311,309	549,977	-	1,861,286	-
Lease payable	-	101,445	13,329	88,116	11,503
Compensated Absences	62,319	6,732	-	69,051	-
	\$ 22,191,566	\$ 3,238,154	\$ 1,309,973	\$ 24,119,747	\$ 1,296,503

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

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

NOTE 7: LONG-TERM DEBT (Continued)

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

	Year Ended September 30	Revenue Notes		General Obligation Bonds	
		Principal	Interest	Principal	Interest
2017	\$	465,000	\$ 147,642	\$ 820,000	\$ 525,652
2018		475,000	135,234	835,000	508,817
2019		490,000	122,496	860,000	484,832
2020		500,000	109,428	885,000	460,132
2021		515,000	96,030	905,000	434,718
2022 – 2026		2,780,000	266,376	4,975,000	1,730,792
2027 – 2031		600,000	7,920	5,635,000	876,593
2032 – 2036		-	-	1,095,000	43,800
Total	\$	5,825,000	\$ 885,126	\$ 16,010,000	\$ 5,065,336

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 for retirement, disability, and death benefits all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The TCERS 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. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Plan description (Continued)

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 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 contribution rate payable by the employee members for the calendar year 2015 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Employees covered by benefit terms

At December 31, 2015, the following employees were covered by the benefit terms:

	Number of Employees
Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	37
Active employees	72
Total	158

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

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Actuarial assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	4.9%, average, including inflation
Investment rate of return	8.10%, net of pension plan investment expense

Mortality rates were based on the following:

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

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012 except where required to be different by GASB Statement No. 68.

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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 2016 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2013 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	14.5%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (*3)	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities – Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment –Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	1.00%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPS)	Alerian MLP Index	3.00%	4.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (*4)	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composit Index	25.00%	5.25%

(*1) Target asset allocation adopted at the April 2016 TCDRS Board meeting.

(*2) Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2016 capital market assumptions.

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

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

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Discount rate

The discount rate used to measure the total pension liability was 8.10%. The rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus a 0.10% adjustment to be gross of administrative expenses as required by GASB Statement No. 68. The method used to determine the discount rate reflects the following funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act:

- TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UALL) shall be amortized as a level percent of pay over 20-year closed layer periods.
- Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 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.
- Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

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. Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and the net pension liability of the employer is equal to the long-term assumed rate of return on investments.

Changes in the Net Pension Liability

The District's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

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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)

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, 2014	\$ 11,422,870	\$ 10,111,561	\$ 1,311,309
Changes for the year:			
Service cost	369,414	-	369,414
Interest on total pension liability (*1)	909,356	-	909,356
Effect of plan changes (*2)	(86,128)	-	(86,128)
Effect of economic/demographic gains or losses	(252,109)	-	(252,109)
Effect of assumptions changes or inputs	79,690	-	79,690
Refund of contributions	(85,872)	(85,872)	-
Benefit payments	(677,407)	(677,407)	-
Administrative expenses	-	(7,167)	7,167
Member contributions	-	177,449	(177,449)
Net investment income	-	(25,081)	25,081
Employer contributions	-	350,544	(350,544)
Other (*3)	-	(25,499)	25,499
Balances as of December 31, 2015	\$ 11,679,814	\$ 9,818,528	\$ 1,861,286

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

(*2) Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

(*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)

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 Brownsville Irrigation District net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 13,254,072	\$ 11,679,814	\$ 10,375,962
Fiduciary net position	9,818,528	9,818,528	9,818,528
Net pension liability/(asset)	\$ 3,435,544	\$ 1,861,286	\$ 557,434

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, 2016, The District recognized pension expense of \$413,754. 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	\$ 210,091	\$ 62,945
Changes in assumptions	-	66,408
Net difference between projected and actual earnings	-	751,502
Contributions made subsequent to measurement date (*1)	N/A	250,191
Total deferred inflows/outflows of resources related to pensions	\$ 210,091	\$ 1,131,046

(*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, 2017.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

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

During the year ended September 30, 2016, the District recognized the amortization of deferred outflows and deferred inflows of resources related to pensions totaling \$181,458 in pension expense.

\$250,191 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,

2017	\$	181,458
2018		181,458
2019		181,458
2020		155,129
2021		(28,736)
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.

During the year ended September 30, 2016, employees of the District were covered by a health, dental, and life insurance plan (the "Plan"). The District paid premiums of \$526.36 per month per employee to the Plan for health insurance and \$22.19 per month per employee to the Plan for dental and life insurance. Employees, at their options, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contact between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for Blue Cross Blue Shield are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

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

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2016, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Capital projects	\$ 392,540

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

NOTE 12: INTERFUND TRANSFERS

Transfer in:					
	General Fund	Capital Projects	Debt Service	Emergency Fund	Total
Transfer out:					
General fund	\$ (1,840,889)	\$ -	\$ -	\$ -	\$ (1,840,889)
Debt service	-	-	621,447	-	621,447
Capital projects	-	1,219,442	-	-	1,219,442
	\$ (1,840,889)	\$ 1,219,442	\$ 621,447	\$ -	-

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

NOTE 13: 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, 2016, 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 14: MAJOR CONSTRUCTION COMMITMENTS

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

Projects:	Amount committed:	
Reuse improvements Port Isabel WWTP	\$	678,014
Microfiltration project		273,495
	\$	951,509

NOTE 15: SUBSEQUENT EVENTS

On October 6, 2016, the District issued \$5,815,000 in Waterworks and Sewer System Revenue Bonds, Series 2016. Proceeds from the sale of the Revenue Bonds will be used to pay costs of issuance and for making improvements and extensions to the District's combined waterworks and sewer system.

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**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**



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

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Water services	\$ 4,327,101	\$ 5,070,469	\$ 5,060,601	\$ (9,868)
Wastewater services	2,910,257	3,505,481	3,496,971	(8,510)
Other water sales	61,556	133,240	124,459	(8,781)
Penalties and interest	46,912	76,976	76,976	-
Tap fees	91,106	162,203	134,898	(27,305)
Investment earnings	12,996	24,077	14,836	(9,241)
Miscellaneous	457,433	312,080	350,709	38,629
Total revenues	7,907,361	9,284,526	9,259,450	(25,076)
Expenditures:				
Service operations:				
Professional fees	458,550	456,436	388,806	67,630
Payroll and benefits	4,011,978	3,728,978	3,687,855	41,123
Utilities	813,370	780,172	815,276	(35,104)
Materials and supplies	920,007	1,150,664	1,162,026	(11,362)
Repairs and maintenance	337,150	417,641	341,278	76,363
Other	180,970	177,829	196,707	(18,878)
Capital outlay	174,350	608,157	417,400	190,757
Debt Service				
Lease principal	-	15,000	13,329	1,671
Interest and fiscal charges	-	-	844	(844)
Total expenditures	6,896,375	7,334,877	7,023,521	311,356
Excess (deficiency) of revenues over expenditures	1,010,986	1,949,649	2,235,929	286,280
Other financing sources/uses:				
Capital lease proceeds	-	-	101,445	101,445
Transfers-internal activities	(1,010,786)	(1,949,454)	(1,840,889)	108,565
Net other financing sources/uses	(1,010,786)	(1,949,454)	(1,739,444)	210,010
Net change in fund balance	\$ 200	\$ 195	496,485	\$ 496,290
Fund balance:				
Beginning of the year			5,771,327	
End of the year			\$ 6,267,812	



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

1. As required by the Texas Water Code, the General Manager submits to the Board of Directors the proposed executive budgets for the fiscal year prior to the beginning of such fiscal year.
2. Budget Workshops are conducted to obtain rate payers comments.
3. The original amount appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriate budget resolutions by the Board of Directors. The original annual appropriated budgets are adopted by resolution by the Board of Directors prior to the beginning of the fiscal year as required by state law. The final annual amended appropriate 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 after the overall total of appropriated expenditures of any fund must be approved by the Board of Directors. During the year, the budget was amended two 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. The General Manager is authorized to make adjustments within a budget, with the authorizations for both of the above annually budgeted fund's lapse at the end of the fiscal year.

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

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

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

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

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

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization period	13.9 years (based on contribution rate calculated in 12/31/12015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

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**OTHER SUPPLEMENTARY
INFORMATION**

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

For the year ended September 30, 2016	Budgeted Amounts		Actual	
	Original	Final	Amounts	Variance
Revenues:				
Property taxes	\$ 1,429,030	\$ 1,429,030	\$ 1,480,550	\$ 51,520
Penalties and interest	62,000	62,000	35,959	(26,041)
Investment earnings	3,100	3,100	7,062	3,962
Miscellaneous	-	-	2,115	2,115
Total revenues	1,494,130	1,494,130	1,525,686	31,556
Expenditures:				
Debt service:				
Principal	1,240,000	1,240,000	1,280,000	(40,000)
Interest and fiscal charges	702,006	702,006	659,105	42,901
Contracted service	72,500	72,500	58,239	14,261
Total expenditures	2,014,506	2,014,506	1,997,344	17,162
Excess (deficiency) of revenues over expenditures	(520,376)	(520,376)	(471,658)	48,718
Other financing sources/uses:				
Transfers-internal activities	614,786	614,786	621,447	6,661
Net other financing sources/uses	614,786	614,786	621,447	6,661
Net change in fund balance	\$ 94,410	\$ 94,410	149,789	\$ 55,379
Fund balance:				
Beginning of the year			2,746,780	
End of the year			\$ 2,896,569	



**TEXAS SUPPLEMENTARY
INFORMATION (TSI) SECTION**



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

CREATION OF DISTRICT

History

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

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

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

Tax Revenues

There is no maximum applicable tax rate for the District and the extent of the taxable property is \$3,338,027,108.

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

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

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

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

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

For the year ended September 30, 2016

1. Services provided by the District during the fiscal year

- Retail water
- Retail Wastewater

2. Retail Service providers

- a. Retail rates for 5/8" meter.

	Minimum Charge	Minimum Usage	Flat Y/N	1,000 Gallons over Minimum	Usage Levels
WATER:	\$ 11.90	4,000	N	\$ 2.47	4,001 to 10,000
				3.89	10,001 to 20,000
				5.55	20,001 plus
WASTEWATER*:	12.35	3,000	N	2.73	3,001 to 4,500
*Based on System wide 75% of water flow				4.23	4,501 to 7,500
				6.50	7,500 Plus

SURCHARGE: \$ 0.05

District employs winter averaging for wastewater usage? No,

Total Water and Wastewater charges per 10,000 gallons usage (Including surcharge): \$ 50.15

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

For the year ended September 30, 2016

b. Water and Wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	5,589	4,835	-	-
1"	1,252	1,116	-	-
2"	364	381	-	-
4"	176	82	-	-
6"	32	66	-	-
8"	1	1	-	-
10"	0	0	-	-
18"	1	1	-	-
<hr/>				
Total Water:	<u>7,415</u>	<u>6,482</u>	-	-
Total Wastewater:	<u>5,450</u>	<u>5,413</u>	-	-

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

Gallons pumped into system:	<u>1,312,625,000</u>
Gallons Billed to Customers:	<u>1,234,821,500</u>
Water Accountability ratio (Gallons billed/gallons pumped);	<u>94.07%</u>

4. Location of the District:

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

Laguna Madre Water District TSI – 2. General Fund Expenditures

For the year ended September 30, 2016

Personnel (Including Benefits)	\$	3,687,855
Professional Fees:		
Auditing		18,700
Legal		29,254
Engineering		146,947
Financial Advisor		26,708
Contracted Services		69,420
Utilities		815,276
Repairs and Maintenance		341,278
Administrative Expenditures		
Office Supplies		36,722
Property Insurance		153,838
Other Administrative Expenditures		42,869
Capital Outlay:		
Capital Assets		409,060
Expenditures not Capitalized		8,340
Solid Waste Disposal		97,777
Materials and Supplies		1,125,304
Other Expenditures		14,173
TOTAL EXPENDITURES		\$ 7,023,521

Number of Persons employed by the District: 74 Full Time

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

For the year ended September 30, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund				
CD - Green Bank	6006203947	.70%	4/24/2017	\$ 1,001,745
CD - Green Bank	6006203986	.79%	8/22/2017	500,000
				1,501,745
Debt Service Fund				
CD - Green Bank	6006203987	.79%	8/22/2017	\$ 500,000
				500,000
Total- All Funds				\$ 2,001,745

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

For the year ended September 30, 2016	Debt Service Taxes
Taxes Receivable Beginning of Year	\$ 158,513
2015 Original Tax Levy	1,445,200
Tax Roll Adjustments	3,115
Total to be accounted for	1,606,828

Tax Collections:

Current Year	1,424,719
Prior Year	43,966
Total Collections	1,468,685
Taxes Receivable, End of Year	\$ 138,143

Taxes Receivable, By Years

Prior Years	\$ 111,702
Current Year – 2015	26,441
Taxes Receivable, End of Year	\$ 138,143

September 30,	2015	2014	2013	2012
Property Valuations:				
Land	\$ 1,315,897,695	\$ 1,323,826,813	\$ 1,376,777,047	\$ 1,389,377,930
Improvements	2,040,487,372	2,027,911,719	2,055,225,938	2,073,422,214
Personal Property	100,511,349	98,291,083	90,029,621	89,924,938
Total Property Valuations	\$ 3,456,896,416	\$ 3,450,029,615	\$ 3,522,032,606	\$ 3,552,725,082

Tax Rates Per \$100 Valuation:

Debt Service Tax Rate	\$0.044643	\$0.039260	\$0.080820	\$0.080820
Original Tax Levy:	\$ 1,445,227	\$ 1,271,531	\$ 2,672,528	\$ 2,697,794

Percent of Taxes Collected

To Taxes Levied	98.40%	98.40%	95.980%	95.08%
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Laguna Madre Water District
TSI – 5. Long Term Debt Service Requirements By Years

Waterworks and Sewer System Revenue Notes, Series 2015

Due During Fiscal Year Ending	Principal Due March 1,	Interest Due March 1 and Sept 1	Total
2017	\$ 465,000	147,642	\$ 612,642
2018	475,000	135,234	610,234
2019	490,000	122,496	612,496
2020	500,000	109,428	609,428
2021	515,000	96,030	611,030
2022	530,000	82,236	612,236
2023	540,000	68,112	608,112
2024	555,000	53,658	608,658
2025	570,000	38,808	608,808
2026	585,000	23,562	608,562
2027	600,000	7,920	607,920
	\$ 5,825,000	885,126	\$ 6,710,126

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

Unlimited Tax Bonds, Series 2012

Due During Fiscal Year Ending	Principal Due June 1	Interest Due June 1 and Dec 1	Total
2017	\$ 670,000	470,463	\$ 1,140,463
2018	685,000	457,063	1,142,063
2019	705,000	436,513	1,141,513
2020	725,000	415,362	1,140,362
2021	745,000	393,612	1,138,612
2022	770,000	371,263	1,141,263
2023	800,000	340,463	1,140,463
2024	820,000	316,463	1,136,463
2025	845,000	290,838	1,135,838
2026	875,000	263,375	1,138,375
2027	905,000	234,500	1,139,500
2028	935,000	203,956	1,138,956
2029	965,000	171,231	1,136,231
2030	1,005,000	136,250	1,141,250
2031	1,055,000	86,000	1,141,000
2032	1,095,000	43,800	1,138,800
	\$ 13,600,000	4,631,152	\$ 18,231,152

Laguna Madre Water District

TSI – 5. Long Term Debt Service Requirements By Years (Continued)

Unlimited Tax Bonds, Series 2016

Due During Fiscal Year Ending	Principal Due June 1,	Interest Due June 1 and Dec 1	Total
2017	\$ 150,000	55,189	\$ 205,189
2018	150,000	51,754	201,754
2019	155,000	48,319	203,319
2020	160,000	44,770	204,770
2021	160,000	41,106	201,106
2022	165,000	37,442	202,442
2023	170,000	33,660	203,660
2024	175,000	29,770	204,770
2025	175,000	25,763	200,763
2026	180,000	21,755	201,755
2027	185,000	17,633	202,633
2028	190,000	13,397	203,397
2029	195,000	9,046	204,046
2030	200,000	4,580	204,580
	\$ 2,410,000	434,184	\$ 2,844,184

Laguna Madre Water District

TSI – 5. Long Term Debt Service Requirements By Years (Continued)

Annual Requirements for All Series

Due During Fiscal Year Ending	Principal Due	Interest Due	Total
2017	\$ 1,285,000	\$ 673,294	\$ 1,958,294
2018	1,310,000	644,051	1,954,051
2019	1,350,000	607,328	1,957,328
2020	1,385,000	569,560	1,954,560
2021	1,420,000	530,748	1,950,748
2022	1,465,000	490,941	1,955,941
2023	1,510,000	442,235	1,952,235
2024	1,550,000	399,891	1,949,891
2025	1,590,000	355,409	1,945,409
2026	1,640,000	308,692	1,948,692
2027	1,690,000	260,053	1,950,053
2028	1,125,000	217,353	1,342,353
2029	1,160,000	180,277	1,340,277
2030	1,205,000	140,830	1,345,830
2031	1,055,000	86,000	1,141,000
2032	1,095,000	43,800	1,138,800
	\$ 21,835,000	\$ 5,950,462	\$ 27,785,462

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

For the year ended September 30, 2016

	Bond Issues			
	Series 2012	Series 2015	Series 2016	Series Total
Interest rates	2.0 - 5.0%	2.64%	2.29%	
Dates Interest Payable	6/1, 12/1	3/1, 9/1	6/1, 12/1	
Maturity dates	6/1/2012 to 6/1/2032	9/1/2015 to 3/1/2027	6/1/2016 to 6/1/2030	
Bonds outstanding at beginning of current year	\$ 14,255,000	\$ 6,280,000	\$ -	\$ 20,535,000
Bonds sold during Current Year	-	-	2,580,000	\$ 2,580,000
Bonds refunded	-	-	-	\$ -
Bonds retired	655,000	455,000	170,000	\$ 1,280,000
Bonds outstanding at end of current year	\$ 13,600,000	\$ 5,825,000	\$ 2,410,000	\$ 21,835,000
Interest paid during the Fiscal Year	\$ 483,563	\$ 159,786	\$ 14,606	\$ 657,955

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: BOKF, NA Dallas, Texas

Bond Authority:	Tax Bonds	Revenue Bonds
Amount Authorized	\$ 39,405,000	\$ 12,160,000
Amount Issued	23,750,000	6,345,000
Remaining to be Issued	\$ 15,655,000	\$ 5,815,000

Debt Service Fund Cash and Temporary Investments balances as of 9-30-16: \$2,856,050

Average annual Debt Service payment (principal & Interest) for remaining term of all debt: \$1,736,591

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

For the year ended September 30,
(except where noted)

	2016	%	2015	%	2014	%	2013 ⁽¹⁾	%	2013 ⁽²⁾	%
GENERAL FUND:										
REVENUES:										
Water service	\$ 5,060,601	54.7%	\$ 4,596,999	57.3%	\$ 4,331,211	58.1%	\$ 2,251,579	59.0%	\$ 4,949,734	56.6%
Wastewater service	3,496,971	37.8%	3,063,040	38.2%	2,828,501	37.9%	1,459,563	38.3%	3,218,697	36.8%
Other water sales	124,459	1.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Penalty and interest	76,976	0.8%	63,063	0.8%	57,194	0.8%	28,115	0.7%	69,841	0.8%
Intergovernmental	-	0.0%	-	0.0%	-	0.0%	-	0.0%	297,509	3.4%
Tap connection fees	134,898	1.5%	167,919	2.1%	111,151	1.5%	23,850	0.6%	102,783	1.2%
Interest on investments	14,836	0.2%	5,195	0.1%	5,990	0.1%	2,143	0.1%	11,661	0.1%
Miscellaneous	350,709	3.8%	126,676	1.6%	125,229	1.7%	48,539	1.3%	88,503	1.0%
TOTAL REVENUES	9,259,450	100.0%	8,022,892	100.0%	7,459,276	100.0%	3,813,789	100.0%	8,738,728	100.0%
EXPENDITURES:										
Professional fees	388,806	4.2%	346,321	4.3%	322,314	4.3%	130,587	3.4%	326,684	3.7%
Payroll and benefits	3,687,855	39.8%	3,668,463	45.7%	3,810,930	51.1%	1,483,380	38.9%	3,619,922	41.4%
Utilities	815,276	8.8%	804,031	10.0%	769,218	10.3%	487,287	12.8%	923,408	10.6%
Materials and supplies	1,162,026	12.5%	986,917	12.3%	846,303	11.3%	450,425	11.8%	848,815	9.7%
Repairs and Maintenance	341,278	3.7%	280,086	3.5%	255,350	3.4%	140,593	3.7%	391,607	4.5%
Other expenditures	196,707	2.1%	206,859	2.6%	167,627	2.2%	67,869	1.8%	275,786	3.2%
Capital outlay	417,400	4.5%	367,244	4.6%	508,905	6.8%	97,785	2.6%	691,918	7.9%
Lease principal	13,329	0.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Interest and fiscal charges	844	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
TOTAL EXPENDITURES	7,023,521	75.9%	6,659,921	83.0%	6,680,647	89.6%	2,857,926	74.9%	7,078,140	81.0%
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ 2,235,929	24.1%	\$ 1,362,971	17.0%	\$ 778,629	10.4%	\$ 955,863	25.1%	\$ 1,660,588	19.0%

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

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,
(except where noted)

	2016	%	2015	%	2014	%	2013 ⁽¹⁾	%	2013 ⁽²⁾	%
DEBT SERVICE FUND:										
REVENUES:										
Property taxes	\$ 1,480,550	97.0%	\$ 1,348,644	96.0%	\$ 2,668,060	97.5%	\$ 98,278	73.5%	\$ 2,783,323	96.3%
Penalty and interest	35,959	2.5%	51,639	3.7%	62,146	2.3%	33,861	25.3%	88,898	3.1%
Interest on investments	7,062	0.5%	3,663	0.3%	7,063	0.3%	1,650	1.2%	17,135	0.6%
Miscellaneous	2,115	0.1%	671	0.0%	-	0.0%	-	0.0%	-	0.0%
TOTAL REVENUES	1,525,686	100.0%	1,404,617	100.0%	2,737,269	100.0%	133,789	100.0%	2,889,356	100.0%
EXPENDITURES:										
Tax collection expense	42,532	2.8%	33,636	2.4%	3,423	0.1%	1,251	0.9%	70,761	2.4%
Appraisal charge	15,707	1.0%	30,221	2.2%	101,873	3.7%	6,892	5.2%	27,655	1.0%
Debt service, interest and fees	1,939,105	127.1%	2,504,931	178.3%	3,204,346	117.1%	3,421,586	2,557.4%	3,538,312	122.5%
Bond issue costs	-	0.0%	140,385	10.0%	-	0.0%	-	0.0%	480,535	16.6%
TOTAL EXPENDITURES	1,997,344	130.9%	2,709,173	192.9%	3,309,642	120.9%	3,429,729	2,563.5%	4,117,263	142.5%
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (471,658)	(31.0)%	\$ (1,304,556)	(92.9)%	\$ (572,373)	(20.9)%	\$ (3,295,940)	(2,563.5)%	\$(1,227,907)	(42.5)%
TOTAL ACTIVE RETAIL WATER CONNECTIONS										
	6,482		6,319		6,208		6,208		6,208	
TOTAL ACTIVE RETAIL WASTE WATER CONNECTIONS										
	5,710		5,413		5,344		5,350		6,214	

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

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

For the year ended September 30, 2016

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

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

Limit on Fees of Office that a Director may receive during a fiscal year
 (Set by Board Resolution – TWC 49.060): \$ - 0 -

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2016	Expense Reimbursement 9/30/2016	Title at Year End
BOARD MEMBERS				
Jeff Keplinger 12 Ocelot Trail Laguna Vista, TX 78578	11/16 – 11/20	\$ -	\$ 2,903.17	Chairman
Whitey Thomas 913 Yturria Port Isabel, TX 78578	11/16 – 11/20	\$ -	\$ 2,877.69	Vice-Chairman
Martin Cantu 1805 N. Shore Dr. Port Isabel, TX 78578	2/15 – 11/20	\$ -	\$ 1,047.43	Secretary
Scott Friedman P O Box 3897 So. Padre Island, TX 78597	11/16 – 11/20	\$ -	\$ 4,536.70	Director
Rick Wells 115 S. Trevino Port Isabel, TX 78578	11/14/ - 11/18	\$ -	\$ -	Director
Doyle Wells, III P O Box 3633 So Padre Island, TX 78596	7/16 – 11/18	\$ -	\$ -	Director

Laguna Madre Water District

TSI – 8. Board Members, Key Personnel and Accountants (Continued)

For the year ended September 30, 2016

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2016	Expense Reimbursement 9/30/2016	Title at Year End
KEY ADMINISTRATIVE PERSONNEL				
Carlos J. Galvan 1636 Oklahoma Street Port Isabel, TX 78578	2001	\$ -	\$ 4,634.30	General Manager
Sanjuana Garcia 5211 Killian Ave. Brownsville, TX 78520	2015	\$ -	\$ 5,104.95	Director of Finance
Charles Ortiz 2085 Sunset Lake Brownsville, TX 78520	2011	\$ -	\$ 4,695.62	District Engineer
Victor Valdez 1207 Tangelo Ct Port Isabel, TX 78578	2013	\$ -	\$ 3,634.19	Director of Operations
CONSULTANTS				
Beatty Bangle Strama 400 West 15 St. Ste 1450 Austin, TX 78701	2015	\$ 29,354.50	\$ -	Attorney
Estrada Hinojosa & Co, Inc. 1717 Main Street Dallas, TX 75201	1999	\$ 10,000.00	\$ -	Financial Advisor
Orbit Broadband LLC 311-D Vogel Drive Mercedes, TX 78570	2012	\$ 39,374.00	\$ -	IT Consultant



OTHER INFORMATION

Laguna Madre Water District Top Ten Taxpayers

For the year ended September 30, 2016

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

Laguna Madre Water District Top Ten Rate Payers

For the year ended September 30, 2016

Account Name	Address	City	Amount
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	\$ 395,771
SSPIBR. LTD DBA PEARL SO PADRE	310 PADRE BLVD	SOUTH PADRE ISLAND	\$ 360,031
SCHILITTERBAHN SO PADRE	200 PADRE BLVD	SOUTH PADRE ISLAND	\$ 341,889
TEXAS PACK INC	508 PORT RD	PORT ISABEL	\$ 254,921
CAMERON COUNTY PARTKS SYSTEM	33174 STATE PARK ROAD 100	SOUTH PADRE ISLAND	\$ 166,237
SAPPHIRE CONDOS	310A PADRE BLVD	SOUTH PADRE ISLAND	\$ 85,636
TOUCHSTONE GOLF	1 GOLF HOUSE	LAGUNA VISTA	\$ 75,587
LONG ISLAND VILLAGE	33772 S GARCIA	PORT ISABEL	\$ 75,083
BRIDGEPOINT CONDOS	334 PADRE BLVD	SOUTH PADRE ISLAND	\$ 71,731
AFFILIATED HOSPITALITY LLC	7010 PADRE BLVD	SOUTH PADRE ISLAND	\$ 59,621

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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, 2016, 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 June 28, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings Reported in Accordance with *Government Auditing Standards* as Finding 2016-01 to be material weaknesses.

Compliance and Other Matters

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

Laguna Madre Water District's Response to Findings

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

Purpose of this Report

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

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

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas

June 28, 2017