#### **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 51-54 of this report.

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

The District also provides other supplementary information concerning the District's debt service fund budgetary schedule, Texas Supplementary Information schedules as required by the Texas Commission on Environmental Quality, and other information deemed appropriate. The other supplementary information, the TSI, and other information can be found on pages 55-73 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, 2018, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$68,498,763. By far, the largest portion of the District's net position (81.5%) 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 Districts net position, \$3,200,219 (4.7%), represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net position, totaling \$9,492,416 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.

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

	 2018	2017
Current and other assets	\$ 15,001,957	\$ 20,559,648
Capital assets	81,069,844	76,697,405
Total assets	96,071,801	97,257,053
Total deferred outflows of resources	520,126	1,126,246
Long-term liabilities outstanding	26,091,737	28,401,947
Other liabilities	1,685,955	1,666,331
Total liabilities	27,777,692	30,068,278
Total deferred inflows of resources	315,472	220,754
Net position		
Net Investment in capital assets	55,806,128	56,218,039
Restricted	3,200,219	3,084,681
Unrestricted	9,492,416	8,791,547
Total net position	\$ 68,498,763	\$ 68,094,267

#### **Governmental Activities**

During the current fiscal year, net position for governmental activities increased by \$404,496. As indicated in Exhibit 2 charges for services comprised 83.9% and property taxes comprised 13.2% of all revenues. Service operations comprised 67.6% of all expenses; interest on long-term debt, 6.9%; and depreciation expense, 25.4%.

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

	2018	2017
Revenues:		
Program Revenues		
Charges for services	\$ 9,391,158	\$ 9,550,739
General Revenues		
Property taxes	1,475,769	1,486,069
Investment earnings	213,196	132,361
Other	104,843	154,452
Total revenue	11,184,966	11,323,621
Expenses		
Service operations	7,189,786	7,025,455
Interest on long-term debt and fiscal expense	738,687	945,387
Depreciation expense	 2,705,723	 2,630,994
Total expenses	10,634,196	10,601,836
Other Income/Expenses		
Gain/loss on sale of assets	(146,274)	-
Increase in net position	404,496	721,785
Net Position, Beginning	68,094,267	67,372,482
Net Position, Ending	\$ 68,498,763	\$ 68,094,267

#### 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.

At September 30, 2018, the District's governmental funds reported combined ending fund balances of \$13,375,673, a decrease of \$5,578,643 in comparison with the prior year. Approximately 41.9% of this amount (\$5,599,329) 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 (\$593,554), 2) restricted for particular purposes (\$4,138,220), 3) committed for particular purposes (\$2,138,543), 4) assigned for particular purposes (\$906,027).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,599,329, while total fund balance increased to \$7,044,205. The fund balance of the District's general fund increased by \$726,837 primarily due to a decrease in expenditures.

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

						Percentage of	Percentage
						Fund Balance In	of Fund Balance In
		E	xpenditures Plus			Relation to	Relation to Expenditures
Fiscal Year	Revenues		Transfers Out	F	und Balance	Revenues	Plus Transfer Out
April							
2008	\$ 8,237,727	\$	6,632,006	\$	6,273,270	76.2%	94.6%
2009	\$ 7,174,800	\$	8,474,029	\$	5,239,329	73.0%	61.8%
2010	\$ 7,443,217	\$	7,387,754	\$	4,511,569	60.6%	61.1%
2011	\$ 8,100,426	\$	7,466,198	\$	5,087,406	62.8%	68.1%
2012	\$ 8,268,463	\$	7,151,218	\$	6,284,270	76.0%	87.9%
2013	\$ 8,738,728	\$	10,335,855	\$	4,697,639	53.8%	45.4%
September							
2013*	\$ 3,813,789	\$	3,137,960	\$	5,373,468	140.9%	171.2%
2014	\$ 7,459,276	\$	7,345,323	\$	5,487,421	73.6%	74.7%
2015	\$ 8,022,892	\$	7,743,486	\$	5,771,327	71.9%	74.5%
2016	\$ 9,259,450	\$	8,864,410	\$	6,267,812	67.7%	70.7%
2017	\$ 9,738,484	\$	9,695,592	\$	6,317,365	64.9%	65.2%
2018	\$ 9,585,386	\$	8,858,549	\$	7,044,205	73.5%	79.5%

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

## Exhibit 4 Laguna Madre Water District General Fund

### Statements of Revenues, Expenditures and Changes in Fund Balance For the Fiscal Year Ended September 30,

		2018	2017
_		\	
Revenues			
Water services		21,051 \$	5,481,245
Wastewater services	·	50,725	3,713,416
Other water sales		L9,597	134,503
Late fees		52,631	58,683
Tap fees		37,154	162,892
Investment earnings		39,446	33,305
Miscellaneous	10	04,782	154,440
Total revenues	9,58	35,386	9,738,484
Expenditures			
Service operation	6,83	33,457	6,687,027
Lease principal		11,831	11,480
Lease interest		2,343	2,694
Capital outlay	13	39,642	206,388
Total expenditures	6,98	37,273	6,907,589
Fueres (Definionary) of Bournies			
Excess (Deficiency) of Revenues	2.5	20 112	2 920 905
Over (under) Expenditures	2,5	98,113	2,830,895
Other Financing Sources (Uses)			
Transfer from other funds		-	6,661
Transfer to other funds	(1,8)	71,276)	(2,788,003)
Total other financing sources	(1,8	71,276)	(2,781,342)
Net Change in Fund Balances	7.	26,837	49,553
Fund Balance Beginning,	6,3	17,368	6,267,815
Fund Balance Ending	\$ 7,0	44,205 \$	6,317,368

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

	 2018	2017
Revenues		
Property taxes and penalties/interest	\$ <b>1,480,077</b> \$	1,503,967
Investment earnings	39,839	19,365
Miscellaneous	61	12
Total revenues	 1,519,977	1,523,344
Expenditures		
Bond principal	1,590,000	1,565,000
Bond interest and fiscal agent fees	688,266	714,584
Contracted services	54,014	54,432
Total expenditures	2,332,280	2,334,016
Excess (Deficiency) of Revenues		
Over (under) Expenditures	(812,303)	(810,672)
Other Financing Sources (Uses)	.8	
Transfer from other funds	932,150	925,965
Total other financing sources	932,150	925,965
Net Change in Fund Balances	119,847	115,293
Fund Balance Beginning,	3,011,861	2,896,568
Fund Balance Ending	\$ <b>3,131,708</b> \$	3,011,861

As shown in Exhibit 5 above, the debt service fund for the fiscal year ended September 30, 2018, had a fund balance of \$3,131,708; this amount represented an increase of \$119,847 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 2018 was \$0.04386 per \$100 valuation.

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

	2018	2017
Revenues		
Investment earnings	\$ 48,793	62,009
Total revenues	 48,793	62,009
		7
Expenditures		
Capital outlay	7,448,364	6,702,033
Bond issuance costs	-	228,145
Total expenditures	7,448,364	6,930,178
Excess (Deficiency) of Revenues		
Over (under) Expenditures	(7,399,571)	(6,868,169)
Other Financing Sources (Uses)		
Issuance of debt		5,815,000
Transfer from other funds	939,126	1,855,377
Total other financing sources	939,126	7,670,377
Net Change in Fund Balances	(6,460,445)	802,208
Fund Balance Beginning,	7,593,617	6,791,409
Fund Balance Ending	\$ 1,133,172	7,593,617

#### **General Fund Budgetary Highlights**

For the fiscal year ended September 30, 2018, total actual revenues exceeded budgeted revenues by \$319,545. Total actual expenditures were under budget by \$435,291. The general fund budget indicates that actual expenses exceeded budgeted expenses in the "materials and supplies" and "other" categories. These variances are not considered significant. Variances between budgeted and actual amounts are not expected to have a significant effect on future services or liquidity of the District. The budget remains in effect the entire year and is revised only if necessary through a budget amendment.

#### **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, 2018, amounts to \$81,069,844. The net increase in capital assets for the fiscal year ended September 30, 2018 was \$4,372,439.

#### Major Projects --- General Fund

The District approved an upgrade to Advanced Metering Infrastructure (AMI), which is an integrated system of smart meters, communications networks, and data management systems that enables two-way communication between the District and its customers.

#### Major Projects---Capital Projects Fund

Port Isabel Wastewater Treatment Plant modifications were made at a cumulative cost of \$6,196,327. Additional improvements at the other Wastewater Treatment Plants were made at a cost of \$150,311. Wastewater collection system modifications and repairs totaled \$126,947. Raw water system maintenance in the amount of \$46,500. The District purchased water rights for \$356,935.

The depreciation expense for the year ended September 30, 2018 for the governmental activities totaled \$2,705,723.

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

1	2018	2017	
Land	\$ 1,411,177	\$	1,411,177
Construction in progress	11,883,329		7,290,292
Buildings and improvements	3,256,494		3,389,103
Improvements other than buildings	7,696,865		7,880,992
Machinery and equipment	715,379		732,139
Infrastructure	56,106,600		55,993,702
9			
Total	\$ 81,069,844	\$	76,697,405

Additional information on the District's capital assets can be found in Note 6 on page 38 of this report.

#### **Long-Term Debt**

At September 30, 2018, the District's total bonded debt was \$24,728,006. Of this amount, \$14,355,000 is considered to be tax supported debt and \$10,140,000 are considered revenue notes. The revenue bonds did not require a bond rating.

Exhibit 8 shows the District's outstanding long-term debt as of September 30, 2018.

Additional information on the District's long-term debt can be found in Note 7 on pages 38-40 of this report.

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

	2018	2017	
General obligation tax bonds Revenue bonds	\$ 14,355,000	\$	15,190,000
Plus: Unamortized premium	10,140,000 233,006		10,895,000 249,650
Total bonds payable	24,728,006		26,334,650
Compensated absences	72,104		74,915
Lease payable	64,805		76,636
Net pension liabilities	 1,226,822		1,915,746
Total long-term liabilities	\$ 26,091,737	\$	28,401,947

#### **Bond Ratings**

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

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

#### **Request for Information**

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

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

Laguna Madre Water District Eduardo Salazar, Director of Finance 105 Port Road Port Isabel, Texas 78578

Phone Number:

956.943.2626

Fax Number:

956.943.6662

E-mail:

esalazar@lmwd.org

Web Page:

Imwd.org

#### **BASIC FINANCIAL STATEMENTS**

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

		Е	mergency	[	Debt	Capital			
	General	Prep	paration and	Se	rvice	Projects		Adjustments	Statement of
September 30, 2018	Fund	Rec	covery Fund	F	und	Fund	Total	(Note 2)	<b>Net Position</b>
Assets									
Cash and cash equivalents	\$ 4,099,910	\$	-	\$	-:	580,538	\$ 4,680,448	\$ -	\$ 4,680,448
Certificates of deposit	2,019,367		=		-	402,301	2,421,668	-	2,421,668
Receivables, (net):								-1	
Taxes	-				113,845	18	113,845	-	113,845
Accounts	701,324		1-		-	570,938	1,272,262	-	1,272,262
Miscellaneous	38,102						38,102	-	38,102
Internal receivables	326,053		Ε.		5,117	609,359	940,529	(940,529)	
Inventories	520,778		= 11		-	-	520,778	-	520,778
Prepaid expenses	72,776		-		-	-	72,776	-	72,776
Restricted assets:									
Cash and cash equivalents	122,946		1,054,433	1,	820,846	160,733	3,158,958	-	3,158,958
Certificates of deposit	402,886		1,012,155	1,	260,411	-	2,675,452	-	2,675,452
Capital assets not being depreciated:									
Land	-					9	-	1,411,177	1,411,177
Construction in progress	-				-	-	-	11,883,329	11,883,329
Capital assets net of accumulated depreciation:									
Buildings and improvements	-		-		-	-	1-1	3,256,494	3,256,494
Improvements other than buildings	-		-			-	-	7,696,865	7,696,865
Machinery and equipment	-		-		1-	-	-	715,379	715,379
Infrastructure	-		*		ia.	-	-	56,106,600	56,106,600
Bond insurance	-		-		-	=	-	47,668	47,668
Total Assets	8,304,142		2,066,588	3,	200,219	2,323,869	15,894,818	80,176,983	96,071,801
Deferred Outflows of Resources									
Deferred charge on refunding	-				7-	-	1-1	138,921	138,921
Deferred outflows related to pension	-		-		-	-	2=2	381,205	381,205
Total Deferred Outflows of Resources	-		-		-	-	n= 1	520,126	520,126

		Emergency	Debt	Capital			
	General	Preparation and	Service	Projects		Adjustments	Statement of
September 30, 2018	Fund	Recovery Fund	Fund	Fund	Total	(Note 2)	<b>Net Position</b>
Liabilities							
Accounts payable	44,205	-	-	426,245	470,450	-	470,450
Accrued payroll	105,599	-	-	-	105,599	-	105,599
Accrued expenses	45,236	-	_	-	45,236	-	45,236
Accrued interest	-	-	-	-	-	175,850	175,850
Retainage payable	-	-	-	438,399	438,399	-	438,399
Internal payables	614,476	-	-	326,053	940,529	(940,529)	
Customer deposits	450,421	-	-	-	450,421	-	450,421
Long-term liabilities.					•		,
Due within one year	-	-	-	-	-	1,642,192	1,642,192
Due in more than one year	-	-	-	-	-	23,222,723	23,222,723
Net pension liability	-	-	-	-	Ē	1,226,822	1,226,822
Total Liabilities	1,259,937	-	-	1,190,697	2,450,634	25,327,058	27,777,692
Deferred Inflows of Resources	· · · · · · · · · · · · · · · · · · ·				· · · · · · · · · · · · · · · · · · ·	- · · · · · · · · · · · · · · · · · · ·	
Unavailable tax revenue	-	-	68,511	-	68,511	(68,511)	-
Deferred inflows related to pension	-	-		-	-	315,472	315,472
Total Deferred Inflows of Resources	-	-	68,511	-	68,511	246,961	315,472
FUND BALANCE/NET POSITION					•		
Fund balances:							
Non-spendable:							
Prepaid items	72,776	_	-	_	72,776	(72,776)	_
Inventories	520,778	_	_	_	520,778	(520,778)	_
Restricted:	020,770				320,770	(320,770)	
Meter deposits	453,878	-	-	_	453,878	(453,878)	_
Debt service	-	_	3,131,708	-	3,131,708	(3,131,708)	_
Capital projects	_	-	-	552,634	552,634	(552,634)	_
Committed:				332,031	332,034	(332,034)	
Capital projects	71,955	-	_	_	71,955	(71,955)	_
Emergency reserve	. 2,555	2,066,588	_	_	2,066,588	(2,066,588)	_
Assigned:		2,000,000			2,000,500	(2,000,500)	
Capital projects	325,489	_	_	580,538	906,027	(906,027)	_
Unassigned	5,599,329	_	-	500,550	5,599,329	(5,599,329)	_
Total fund balances	7.044,205	2,066,588	3,131,708	1,133,172	13,375,673	(13,375,673)	
Total liabilities, deferred inflows,	7,044,203	2,000,388	3,131,706	1,133,172	13,373,073	(13,373,073)	<del></del>
·	\$ 8.304.142	ć 2,000 F00	ć 2.200.210	ć 2.222.0C0	ć 15 004 010		
and fund balances	\$ 8,304,142	\$ 2,066,588	\$ 3,200,219	\$ 2,323,869	\$ 15,894,818		
Net Position (Government-wide):							
Net investment in capital assets						55,806,128	55,806,128
Restricted for:							
Debt service						3,200,219	3,200,219
Unrestricted						9,492,416	9,492,416
Total net position						\$ 68,498,763	\$ 68,498,763

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

		Emergency	Debt	Capital				
	General	Preparation and	Service	Projects		Adjustments	Statement of	
September 30, 2018	Fund	Recovery Fund	Fund	Fund	Total	(Note 2)	Activities	
Revenues:								
Water services	\$ 5,321,051	\$ -	\$ -	\$ -	\$ 5,321,051	\$ -	\$ 5,321,05	
Wastewater services	3,650,725	-	( <del>-</del> )	-	3,650,725	-	3,650,725	
Other water sales	119,597	-	-	~	119,597	-	119,597	
Late fees	62,631	-		· ·	62,631	-	62,633	
Tap fees	237,154	-	-	-	237,154		237,154	
Property taxes	-	-	1,454,793	-	1,454,793	(4,308)	1,450,485	
Penalties and interest	Ξ.	-	25,284	-	25,284	=	25,284	
Investment earnings	89,446	35,118	39,839	48,793	213,196	2	213,196	
Other	104,782	-	61	-	104,843	=	104,843	
Total revenues	9,585,386	35,118	1,519,977	48,793	11,189,274	(4,308)	11,184,966	
Expenditures/expenses:								
Service operations:								
Administration	282,962	-	_	_	282,962		282,962	
Contracted services	240,125				240,125		240,125	
Insurance	200,962	_	-	_	200,962	-	200,962	
Professional fees	206,570	-	-	-	206,570	-	206,570	
Payroll and benefits	3,908,057	-	-	-	3,908,057	(402,198)	3,505,859	
<ul> <li>Date • Company Control of the Control</li></ul>	3,908,037	-	-	-	3,908,037	The second secon	394,957	
Net pension expense Utilities	-	-	-	-	-	394,957		
	690,553	-	-	-	690,553	-	690,553	
Materials and supplies	936,154	-	-	-	936,154	-	936,154	
Repairs and maintenance	292,266	-	,-	-	292,266	-	292,266	
Other	75,808	-	-	7 440 264	75,808	- /7 224 426\	75,808	
Capital outlay	139,642		,-	7,448,364	7,588,006	(7,224,436)	363,570	
Debt service:			4 500 000		4 500 000	(4.500.000)		
Principal		-	1,590,000	-	1,590,000	(1,590,000)		
Lease principal	11,831	10		-	11,831	(11,831)		
Interest and fiscal charges	2,343	5 <del>-</del>	688,266	-	690,609	(5,936)	684,673	
Bond issunce costs	-	99	-		-	**		
Contracted service	-	-	54,014	-	54,014	-	54,014	
Depreciation		-		-	-	2,705,723	2,705,723	
Total expenditures/expenses	6,987,273		2,332,280	7,448,364	16,767,917	(6,133,721)	10,634,196	
Excess (deficiency) of revenues								
over expenditures	2,598,113	35,118	(812,303)	(7,399,571)	(5,578,643)	6,129,413	550,770	
			- 20 -			ı	PET00465	
Page 513 of 1018						CI	PI 0070	

		Emergency	Debt	Capıtal			
	General	Preparation and	Service	Projects		Adjustments	Statement of
September 30, 2018	Fund	Recovery Fund	Fund	Fund	Total	(Note 2)	Activities
Other financing sources/(uses):							
Gain or loss on sale of assets	-			-	-	(146,274)	(146,274)
Transfers In	-	-	932,150	939,126	1,871,276	(1,871,276)	-
Transfers Out	(1,871,276)	-	-	•	(1,871,276)	1,871,276	-
Net other financing sources/(uses)	(1,871,276)	-	932,150	939,126		(146,274)	(146,274)
Excess (deficiency) of revenues							
and other financing sources over							
(under) expenditures and other							
financing uses	726,837	35,118	119,847	(6,460,445)	(5,578,643)	5,578,643	
Change in net position						404,496	404,496
Fund balance/net position:							
Beginning of the year	6,317,368	2,031,470	3,011,861	7,593,617	18,954,316	49,139,951	68,094,267
End of the year	\$ 7,044,205	\$ 2,066,588	\$ 3,131,708	\$ 1,133,172	\$ 13,375,673	\$ 55,123,090	\$ 68,498,763

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

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

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

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

#### Basis of Presentation - Government-wide and Fund Financial Statements

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

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

The District reports the following major governmental funds:

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

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

#### Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Measurement Focus and Basis of Accounting (Continued)

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

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

#### **Budgetary Information**

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

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

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

#### Cash and Cash Equivalents

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

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#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments

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

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

#### **Inventories and Prepaid Items**

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

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

#### **Use of Estimates**

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

#### **Property Taxes**

Property taxes are levied each October 1<sup>st</sup> on the basis of assessed values and are due upon receipt of the tax bill. Taxes become delinquent February 1<sup>st</sup> 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 1<sup>st</sup> of the year taxes become delinquent.

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capital Assets

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

Asset Class		<b>Estimated Useful Lives</b>
Buildings		40
Improvements other than building	gs .	20
Furniture and fixtures		10
Equipment		10
Motor vehicles		8
Water and wastewater plant in se	rvice	50
Infrastructure		50

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

#### **Net Position Flow Assumption**

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

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

#### **Fund Balance Flow Assumption**

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

PET00471 SPI 0076

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Fund Balance Policies**

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

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

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

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

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

#### **Restricted Assets**

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

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

Cash and cash equivalents	\$ 1,820,846
Certificates of deposit	1,260,411
Total restricted assets	\$ 3,081,257

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Restricted Assets (Continued)

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

Cash and cash equivalents

\$ 160,733

#### **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 TCDRS' Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in the accordance with the benefit terms. Investments are reported at fair value.

#### Deferred outflows/Inflows of Resources

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

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Deferred outflows/Inflows of Resources (Continued)

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

#### **Compensated Absences**

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

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

#### **Deferred Compensation Plan**

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

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

#### 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.

#### **New Accounting Standards Adopted**

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

• GASB Statement No. 86, Certain Debt Extinguishment Issues

In May 2017, the GASB issued GASB Statement No. 86, Certain Debt Extinguishment Issues, This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt, improves accounting and financial report for prepaid insurance on debt that is extinguished and improves notes to financial statements for all debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in-substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt was acquired.

#### **Recently Issued Accounting Pronouncements**

In March 2018, the GASB issued GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, this Statement will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Management is evaluating the effects that the full implementation of GASB Statement No. 88 will have on its financial statements for the year ended September 30, 2019.

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

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

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

Total fund balances – governmental funds (pages 18-19)	\$ 13,375,673
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	81,069,844
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	68,511
Long-term liabilities, including bonds payable, are not due and payable in the	
current period and, therefore are not reported in the funds.	(26,015,265)
Net position of governmental activities (pages 18-19)	\$ 68,498,763

One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$81,069,844 are as follows:

Land	\$ 1,411,177
Construction in progress	11,883,329
Buildings and improvements, net	3,256,494
Improvements other than buildings, net	7,696,865
Personal property with UAC > \$5,000, net	715,379
Infrastructure, net	 56,106,600
Net adjustment to increase fund balance – total governmental funds	
to arrive at net position – governmental activities	\$ 81,069,844

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#### 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 \$(26,015,265) difference are as follows:

General obligation bonds payable	\$ (20,170,000)
Revenue bonds payable	(4,325,000)
Deferred charge on refunding (to be amortized as interest expense)	138,921
Capital lease payable	(64,805)
Bond insurance (to be amortized over life of debt)	47,667
Issuance premiums (to be amortized as interest expense)	(233,006)
Accrued interest payable	(175,850)
Compensated absences	(72,104)
Net pension liability	(1,226,822)
Deferred outflows related to pensions (to be amortized as net pension expense)	381,205
Deferred inflows related to pensions (to be amortized as net pension expense)	(315,471)
Net adjustment to increase fund balance – total governmental funds	
to arrive at net position – governmental activities	\$ (26,015,265)

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

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

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

Net change in fund balances – total governmental funds (page	s 20-21)	\$ (5,578,643)
Governmental funds report capital outlays as expenditures, statement of activities the cost of those assets is allocated ovuseful lives and reported as depreciation expense. This is the capital outlays exceeded depreciation in the current period.	er their estimated	4,518,713
The net effect of various miscellaneous transactions involving (i.e., sales and donations) is to decrease net assets.	capital assets	(146,274)
Contributions to the pension plan in the current fiscal year a the statement of activities.	re not included in	399,387
Revenues in the statement of activities that do not provide resources are not reported as revenues in the funds.	e current financial	(4,308)
The issuance of long-term debt (e.g. bonds, leases) provided resources to governmental fund, while the repayment of the term debt consumes the current financial resources of governmental networks any effects on net assets. A funds report the effect of issuance costs, premiums, discounts when debt is first issued, whereas these amounts are deferred the statement of activities. This amount is the net effect of the	principal on long- vernmental funds. Also, governmental s, and similar items d and amortized in	
the treatment of long-term debt and related items.		1,601,831
Some expenses reported in the statement of activities do not current financial resources and, therefore, are not reported a governmental funds		(386,210)
Change in net position of governmental activities (page 20-21)		\$ 404,496

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$4,518,713 difference are as follows:

Capital outlay	\$ 7,224,436
Depreciation expense	(2,705,723)
Net adjustment to increase fund balance – total governmental funds	
to arrive at net position – governmental activities	\$ 4,518,713

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 \$1,601,831, is the net effect of these differences in the treatment of long-term debt and related items." The details of the \$1,601,831 difference are as follows:

Principal repayments:	
General obligation bonds	(835,000)
Revenue bonds	(755,000)
Capital lease	(11,831)
Net adjustment to increase changes in fund balances-total governmental	
funds to arrive at changes in net position of governmental activities	\$ (1,601,831)

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

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

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$386,210 difference are as follows:

Compensated absences	\$ (2,811)
Accrued interest	(9,041)
Net pension expense	394,957
Amortization of deferred charge on refunding	16,344
Amortization of bond premiums	(16,644)
Amortization of bond insurance	3,405
Net adjustment to decrease changes in fund balances-total governmental	
funds to arrive at changes in net position of governmental activities	\$ 386,210

#### **NOTE 3: LEGAL COMPLIANCE**

#### **Budget**

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

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

#### **NOTE 4: DEPOSITS AND INVESTMENTS**

Deposits and investments as of September 30, 2018 are classified in the accompanying financial statements as follows:

Unrestricted – cash and cash equivalents	\$ 4,680,448
Unrestricted – investments (certificates of deposit)	2,421,668
Total	\$ 7,102,116

Restricted deposits and investments as of September 30, 2018 consist of the following:

Restricted – cash and cash equivalents	\$ 3,158,958
Restricted – investments (certificates of deposit)	2,675,452
Total	\$ 5,834,410

*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.

		Maximum	Maximum
	Maximum	Percentage	Investment
Authorized Investment Type	Maturity	Of Portfolio	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.

#### NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

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

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

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Bank balances are covered by Federal Depository Insurance Corporation (FDIC) insurance of \$250,000. Bank accounts in excess of FDIC insurance are covered with collateralized securities held by International Bank of Commerce in the District's name. As of September 30, 2018, the District's market value of pledged securities was \$21,770,484 and the bank deposits requiring collateral were \$12,036,329. The bank balances as of September 30, 2018 were fully insured by FDIC coverage and collateral pledged by financial institutions.

#### **NOTE 5: RECEIVABLES**

Receivables at September 30, 2018, including the applicable allowance for uncollectible accounts are as follows:

		Debt	Capital	
	General	Service	Projects	Total
Taxes	\$ -	\$ 120,994	\$ -	\$ 120,994
Accounts	709,688	-	570,938	1,280,626
Miscellaneous	38,102	-		38,102
Gross receivables	747,790	120,994	570,938	1,439,722
Less: Allowance for uncollectible	(8,364)	(7,149)		(15,513)
Net total receivables	\$ 739,426	\$ 113,845	\$ 570,938	\$ 1,424,209

**NOTE 6: CAPITAL ASSETS** 

Capital asset activity for the fiscal year ended September 30, 2018 was as follows:

	Balance 9/30/17	Additions	Retirements	Re	classifications	Balance 9/30/18
Government Activities:						
Capital assets, not depreciated:						
Land and easements	\$ 1,411,177	\$ -	\$ -	\$	-	\$ 1,411,177
Construction in progress	7,290,292	7,074,988	(136,993)		(2,344,958)	11,883,329
Total capital assets, not depreciated	8,701,469	7,074,988	(136,993)		(2,344,958)	13,294,506
Capital assets, being depreciated:						
<b>Buildings and improvements</b>	4,505,856	-	-		-	4,505,856
Improvements other than buildings	9,261,927	-	-		288,058	9,549,985
Machinery and equipment	2,414,444	105,675	(39,800)		-	2,480,319
Infrastructure	99,381,102	43,773	(12,027)		2,056,900	101,469,748
Total capital assets, being depreciated	115,563,329	149,448	(51,827)		2,344,958	118,005,908
Less accumulated depreciated for:						
Buildings and improvements	(1,116,753)	(132,609)	-		-	(1,249,362)
Improvements other than buildings	(1,380,935)	(472, 185)	-		-	(1,853,120)
Machinery and equipment	(1,682,305)	(122,114)	39,479		-	(1,764,940)
Infrastructure	(43,387,400)	(1,978,815)	3,067		-	(45,363,148)
Total accumulated depreciation	(47,567,393)	(2,705,723)	42,546		-	(50,230,570)
Total capital assets,						
being depreciated, net	67,995,936	 (2,556,275)	 (9,281)		-	 67,775,338
Governmental activities						
Capital assets, net	\$ 76,697,405	\$ 4,518,713	\$ (146,274)	\$	12	\$ 81,069,844

Depreciation expense for the fiscal year was \$2,705,723.

#### **NOTE 7: LONG-TERM DEBT**

#### **Bonds Payable**

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

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

#### NOTE 7: LONG-TERM DEBT (Continued)

#### **Bonds Payable (Continued)**

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

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

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

The following is a schedule of bonds outstanding at September 30, 2018:

	Bond Issue	Interest Rate	Sept	Balance at ember 30, 2018
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 1	5 2012			
Maturity date June 1, 2032.	3, 2012.	2% - 5%	\$	12,245,000
\$2,580,000 Unlimited Tax Bonds, Series 2016. Issued March 2	2, 2016.			
Maturity date June 1, 2032.		2.29%		2,110,000
Total General Obligation Tax Bonds				14,355,000
\$6,345,000 Waterworks and Sewer System Revenue Refunding	ng			
Bonds, Series 2015. Issued April 1, 2015. Maturity date Marc	ch 1, 2027.	2.64%		4,885,000
\$5,815,000 Waterworks and Sewer System Revenue Bonds,				
Series 2016. Issued October 16, 2016. Maturity date March 1	, 2036	.01% - 1.37%		5,255,000
Total Revenue Bonds				10,140,000
Total General Obligation and Revenue Bonds			\$	24,495,000

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

#### NOTE 7: LONG-TERM DEBT (Continued)

#### **Advance Refunding**

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At September 30, 2018, the following outstanding bonds are considered defeased:

Series	<b>Ending Balance</b>
2007	\$4,825,000

#### Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2018 are as follows:

	09/30/17	Additions	 Reductions	09/30/18	Due Within One Year
Bonds payable					
General Obligation Tax Bonds	\$ 15,190,000	\$ -	\$ 835,000	\$ 14,355,000	\$ 860,000
Revenue Bonds	10,895,000	-	755,000	10,140,000	770,000
Plus: unamortized premium	249,650	-	16,644	233,006	-
Total bonds payable	26,334,650	-	1,606,644	24,728,006	1,630,000
Net pension liability	1,915,746	-	688,924	1,226,822	-
Lease payable	76,636	-	11,831	64,805	12,192
Compensated Absences	74,915	127,339	130,150	72,104	-
- n	\$ 28,401,947	\$ 127,339	\$ 2,437,549	\$ 26,091,737	\$ 1,642,192

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

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

<b>Year Ended</b>	Revenu	e No	tes	<b>General Obliga</b>	ation	Bonds
September 30	Principal		Interest	Principal		Interest
2019	770,000		164,412	860,000		484,832
2020	780,000		151,344	885,000		460,132
2021	795,000		137,932	905,000		434,718
2022	810,000		123,830	935,000		408,704
2023	820,000		108,908	970,000		374,126
2024 - 2028	3,730,000		302,186	5,285,000		1,417,448
2029 - 2033	1,490,000		107,873	4,515,000 4		450,907
2034 – 2037	945,000		19,307	-		-
Total	\$ 10,140,000	\$	1,115,792	\$ 14,355,000	\$	4,030,867

#### **NOTE 8: EMERGENCY PREPARATION AND RECOVERY FUND**

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

#### NOTE 9: EMPLOYEE RETIREMENT SYSTEM

#### A. General Information about the Pension Plan

#### Plan description

The District provides retirement, disability, and death benefits for all of its nontemporary full-time and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The TCDRS is an agent multiple-employer, statewide public employee pension plan established by the Texas Legislature in 1967 and administered by a nine member Board of Trustees. The retirement system consists of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

#### **Funding Policy**

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

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#### **NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)**

Under the TCDRS Act, the contributions rate of the employer is actuarially determined annually and approved by the TCDRS Board of Trustees. The employer contributed using the actuarially determined rate of 14.39% and 14.27% for the calender years 2017 and 2016, respectively. The contribution rate payable by the employee members for the calendar years 2017 and 2016 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

#### Employees covered by benefit terms

At December 31, 2017, the following employees were covered by the benefit terms:

	Number of Employees
Inactive employees or beneficiaries currently receiving benefits	51
Inactive employees entitled to but not yet receving benefits	40
Active employees	75
Total	166

#### **Actuarial assumptions**

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

#### Mortality rates were based on the following:

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

### Laguna Madre Water District Notes to Financial Statements

#### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012 except where required to be different by GASB 68.

#### **Discount Rate**

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

(\*2) This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68.

(\*3) The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

### Depletion of Plan Assets/GASB Discount Rates

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

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

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

### Laguna Madre Water District Notes to Financial Statements

#### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

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

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

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

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### Laguna Madre Water District Notes to Financial Statements

#### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

#### Long-term expected rate of return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 for more details.

Asset Class	Benchmark	Target	Geometric Real Rate
		Allocation	of Return (Expected
		(*1)	minus inflation) (*2)
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (*3)	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities – Developed Markets	MSCI World Ex USA (net) Index	11.00%	4.55%
International Equities – Emerging Markets	MSCI EM Standard (net) Index	8.00%	5.55%
Investment –Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index (*4)	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (*5)	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

<sup>(\*1)</sup> Target asset allocation adopted at the April 2018 TCDRS Board meeting.

<sup>(\*2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

<sup>(\*3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(\*4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(\*5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

### Changes in the Net Pension Liability

The District's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

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

	Increase (Decrease)						
		<b>Net Pension</b>					
	T	otal Pension		<b>Net Position</b>		Liability	
		Liability (a)		(b)		(a) – (b)	
Balances as of December 31, 2016	\$	12,270,739	\$	10,354,992	\$	1,915,747	
Changes for the year:							
Service cost		355,712				355,712	
Interest on total pension liability (*1)		994,321		-		994,321	
Effect of plan changes (*2)		-		-		-	
Effect of economic/demograhic gains							
or losses		(6,355)		-		(6,355)	
Effect of assumptions changes or inputs		13,650		-		13,650	
Refund of contributions		(53,683)		(53,683)		-	
Benefit payments		(662,021)		(662,021)		-	
Administrative expenses		-		(7,771)		7,771	
Member contributions		-		182,504		(182,504)	
Net investment income		-		1,508,763		(1,508,763)	
Employer contributions		-		365,000		(365,000)	
Other (*3)		-		(2,243)		2,243	
Balances as of December 31, 2017	\$	12,912,363	\$	11,685,541	\$	1,226,822	

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

<sup>(\*2)</sup> No plan changes valued.

<sup>(\*3)</sup> Relates to allocation of system-wide items.

### Laguna Madre Water District Notes to Financial Statements

### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

### Changes in the Net Pension Liability (Continued)

#### **Sensitivity Analysis**

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

			Current	
	1% Decrease	D	iscount Rate	1% Increase
	7.10%		8.10%	9.10%
Total pension liability	\$ 14,670,518	\$	12,912,363	\$ 11,439,637
Fiduciary net position	11,685,541		11,685,541	11,685,541
Net pension liability/(asset)	\$ 2,984,977	\$	1,226,822	\$ (245,904)

### **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, 2018, The District recognized pension expense of \$394,957. The District reported deferred inflows and outflows of resources related to pensions from the following sources:

	 of Resources	Defe	of Resources
Differences between expected and actual experience	\$ 173,495	\$	31,472
Changes in assumptions	-		51,220
Net difference between projected and actual earnings	141,977		-
Contributions made subsequent to measurement date (*1)	N/A		298,513
Total deferred inflows/outflows of resources related to pensions	\$ 315,472	\$	381,205

<sup>(\*1)</sup> 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, 2019.

#### NOTE 9: EMPLOYEE RETIREMENT SYSTEM (Continued)

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

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

### Year ended December 31,

2018	\$ 49,089
2019	22,760
2020	(161, 105)
2021	(144,738)
2022	1,214
Thereafter (*1)	-

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

#### **NOTE 10: RISK MANAGEMENT**

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

During the year ended September 30, 2018, employees of the District were covered by a health, dental, and life insurance plan (the "Plan"). The District paid premiums of \$550.05 per month per employee to the Plan for health insurance and \$37.10 per month per employee to the Plan for dental, vision and life insurance. Employees, at their options, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contact between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for United Healthcare are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

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### Laguna Madre Water District Notes to Financial Statements

#### **NOTE 11: INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances as of September 30, 2018 were as follows:

	ue From er Funds	Due To Other Funds			
Major Funds:					
General Fund	\$ 326,053	\$	614,376		
<b>Debt Service Fund</b>	5,117		-		
Capital Projects Fund	609,359		326,053		
Total	\$ 940,529	\$	940,529		

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

Interfund transfers for the year ended September 30, 2018 were as follows:

	Transfer in:								
	General Fund		Capital Projects		Debt Service		Emergency Fund		Total
Transfer out: General Fund	\$ (1,871,276)	\$	939,126	\$	932,150	\$	-	\$	-

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 capital projects fund.

### NOTE 12: AUTHORIZED, ISSUED AND OUTSTANDING DEBT

On May 14, 2011, voters in the Laguna Madre Water District approved two propositions for issuing new bonds. At September 30, 2018, only a portion of that debt had been issued. The projects are as follows:

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

#### **NOTE 13: MAJOR COMMITMENTS**

As of September 30, 2018, the District has committed certain funds for major construction projects and capital acquisitions. The construction projects and capital acquisitions are as follows:

Projects/Capital Acquisitions:	Amoun	t committed:
Wastewater Treatment Facility Sludge Holding Tank		
Upgrade and Lift Stations Rehabilitation	\$	5,425,000
AMI Water Meters		2,940,000
Reuse Improvement		797,565
Vacuum Truck		325,489
Total	\$	9,488,054

#### **NOTE 14: CAPITAL LEASE COMMITMENTS**

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

The future minimum leases obligations and the net present value of these minimum lease payments as of September 30, 2018, were as follows:

Year ending September 30,	 
2019	\$ 14,174
2020	14,174
2021	14,174
2022	14,174
2023	14,174
Total minimum lease payments	70,870
Less: amount representing interest	(6,065)
Present value of minimum lease payments	\$ 64,805

### **NOTE 15: SUSBSEQUENT EVENTS**

On November 28, 2018, the District issued \$2,875,000 in Waterworks and Sewer System Revenues Notes, Series 2018. Proceeds from the sale of the Revenue Notes will be used to pay costs of issuance, to fund a debt service reserve fund and to finance the meter replacement project.

# REQUIRED SUPPLEMENTARY INFORMATION SECTION

### Laguna Madre Water District Schedule of Revenues, Expenditures, and Changes in Fund Balance General Fund – Budget and Actual For the Fiscal Year Ended September 30, 2018

	<b>Budgeted Amounts</b>			Actual		
	Original		Final	Amounts	,	Variance
Revenues:						
Water services	\$ 5,084,063	\$	5,084,063	\$ 5,321,051	\$	236,988
Wastewater services	3,480,340		3,480,340	3,650,725		170,385
Other water sales	104,234		104,234	119,597		15,363
Late fees	76,976		76,976	62,631		(14,345)
Tap fees	155,123		155,123	237,154		82,031
Investment earnings	14,836		14,836	89,446		74,610
Miscellaneous	350,269		350,269	104,782		(245,487)
Total revenues	9,265,841		9,265,841	9,585,386		319,545
Expenditures:						
Service operations:						
Administration	331,850		326,550	282,962		43,588
Contracted services	321,400		255,185	240,125		15,060
Insurance	199,801		217,026	200,962		16,064
Professional fees	143,500		210,370	206,570		3,800
Payroll and benefits	4,000,408		3,930,775	3,908,057		22,718
Utilities	767,315		701,157	690,553		10,604
Materials and supplies	979,862		895,356	936,154		(40,798)
Repairs and maintenance	434,262		323,499	292,266		31,233
Other	122,293		66,349	75,808		(9,459)
Capital outlay			100 to 10	• • • • • • • • • • • • • • • • • • • •		
Capital Outlay	523,125		482,123	139,642		342,481
Lease principal	-		11,831	11,831		-
Interest and fiscal charges	-		2,343	2,343		-
Total expenditures	7,823,816		7,422,564	6,987,273		435,291
Excess (deficiency) of revenues						
over expenditures	1,442,025		1,843,277	2,598,113		754,836
Other financing sources/uses:						
Transfers-internal activities	(1,442,024)		(1,871,276)	(1,871,276)		_
Net other financing sources/uses			(1,871,276)	(1,871,276)		-
Excess (deficiency) of revenues						
and other financing sources over						
(under) expenditures and other						
financing uses	\$ 1	\$	(27,999)	726,837	\$	754,836
Fund balance:			,			
Beginning of the year				6,317,368		
End of the year				\$ 7,044,205		

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

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

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

	Year Ended December 31,							
		2017		2016		2015		2014
Total Pension Liability								
Service cost	\$	355,712	\$	351,190	\$	369,415	\$	349,544
Interest on total pension liability		994,321		934,915		909,356		857,968
Effect of plan changes		-		-		(86,128)		-
Effect of assumption changes or inputs		13,650		/ <del>*</del>		79,690		-
Effect of economic/demoghraphic (gains) or losses		(6,355)		(63,218)		(252,109)		94,417
Benefit payments/refunds of contributions		(715,704)		(631,962)		(763,280)		(588,331
Net change in total pension liability		641,624		590,925		256,944		713,598
Total pension liability, beginning		12,270,739		11,679,814		11,422,870		10,709,272
Total pension liability, ending (a)	\$	12,912,363	\$	12,270,739	\$	11,679,814	\$	11,422,870
Fiduciary Net Position								
Employer contributions	\$	365,000	\$	346,147	\$	350,544	\$	369,552
Member contribtutions		182,504		177,303		177,449		187,581
Investment income net of investment expenses		1,508,763		725,930		(25,081)		643,747
Benefit payments/refunds of contributions		(715,704)		(631,962)		(763,280)		(588,331
Administrative expenses		(7,771)		(7,894)		(7,167)		(7,549
Other		(2,243)		(73,059)		(25,499)		15,773
Net change in in fiduciary net position		1,330,549		536,465		(293,034)		620,773
Fiduciary net position, beginning		10,354,992		9,818,527		10,111,561		9,490,788
Fiduciary net position, ending (b)	\$	11,685,541	\$	10,354,992	\$	9,818,527	\$	10,111,561
Net pension liability / (asset), ending = (a) - (b)	\$	1,226,822	\$	1,915,747	\$	1,861,287	\$	1,311,309
Fiduciary net position as a % of total pension liability		90.50%		84.39%		84.06%		88.52%
Pensionable covered payroll	\$	2,607,198	\$	2,532,895	\$	2,534,988	\$	2,679,726
Net pension liability as a % of covered payroll		47.06%		75.63%		73.42%		48.93%

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

## Laguna Madre Water District Schedule of Employer Contributions

Year Ending September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	352,564	352,564	-	2,551,846	13.8%
2016	344,556	344,556	-	2,518,460	13.7%
2017	360,462	360,462	-	2,590,525	13.9%
2018	399,387	399,387	-	2,707,139	14.8%

### **Notes to Schedule**

Valuation Date:

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which

contributions are reported.

### Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization period:	12.7 years (based on contribution rate calculated in 12/31/2017
	valuation)
Asset Valuation Method:	5-year smoothed market
Inflation:	2.75%
Salary Increases:	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return:	8.00%, net of administrative and investment expenses, including inflation.
Retirement Age:	Members who are eligible for service retirement are assumed to
	commence receiving benefit payments based on age. The average age
	at service retirement for recent retirees is 61.
Mortality:	130% of the RP-2014 Healthy Annuitant Mortality Table for males and
	110% of the RP-2014 Healthy Annuitant Mortality Table for females,
	both projected with 110% of the MP-2014 Ultimate scale after 2014
Changes in Assumptions and	2015: New inflations, mortality and other assumptions reflected.
Methods Reflected in the	2017: New mortality assumptions were reflected.
Schedule of Employer	
Contributions:	
Changes in Plan Provisions	2015: No changes in plan provisions were reflected in the Schedule.
Reflected in the Schedule of	2016: No changes in plan provisions were reflected in the Schedule.
Employer Contributions:	2017: New Annuity Purchase Rates were reflected for benefits earned
	after 2017.

**OTHER SUPPLEMENTARY INFORMATION** 

### Laguna Madre Water District Schedule of Revenues, Expenditures, and Changes in Fund Balance Debt Service Fund – Budget and Actual For the Fiscal Year Ended September 30, 2018

	<b>Budgeted Amounts</b>			Actual				
		Original		Final		Amounts	١	/ariance
Revenues:								
Property taxes	\$	1,367,447	\$	1,367,447	\$	1,454,793	\$	87,346
Penalties and interest		33,999		33,999		25,284		(8,715)
Investment earnings		5,988		5,988		39,839		33,851
Miscellaneous		-		-		61		61
Total revenues		1,407,434		1,407,434		1,519,977		112,543
Expenditures:								
Debt service:								
Principal		1,590,000		1,590,000		1,590,000		-
Interest		687,117		687,117		688,266		(1,149)
Contracted service		50,125		50,125		54,014		(3,889)
Total expenditures		2,327,242		2,327,242		2,332,280		(5,038)
Excess (deficiency) of revenues								
over expenditures		(919,808)		(919,808)		(812,303)		107,505
Other financing sources/(uses):								
Transfers-internal activities		932,150		932,150		932,150		
Net other financing sources/uses		932,150		932,150		932,150		_
Excess (deficiency) of revenues								
and other financing sources over								
(under) expenditures and other								
financing uses	\$	12,342	\$	12,342		119,847	\$	107,505
Fund balance:								
Beginning of the year						3,011,861		
End of the year					\$	3,131,708		

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# TEXAS SUPPLEMENTARY INFORMATION (TSI) SECTION

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

#### CREATION OF DISTRICT

#### History

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

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

The District obtains water from the Rio Grande under rights granted by the State of Texas permitting the use of up to 7,278.6 acre-feet annually. Additionally, new water rights were purchased on August 28, 2018 and are pending TCEQ approval which will increase the permitted use to 7,513.4 acre-feet annually. This water is pumped via the District's raw water transmission line from the Rio Grande River to Water Plant No. 2 in Laguna Vista.

### Tax Revenues

There is no maximum applicable tax rate for the District and the extent of the taxable property is \$3,312,253,813.

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

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

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

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

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

### For the year ended September 30, 2018

- 1. Services provided by the District during the fiscal year.
- Retail Water
- -Retail Wastewater
- 2. Retail Service Providers
- a. Retail rates for a 5/8" meter

	 nimum harge	Minimum Usage	Flat Rate Y/N	Ga	er 1,000 llons ninimum	Usage levels
WATER	\$ 12.26	4,000	N	\$	2.47	4,001 to 10,000
				\$	3.89	10,001 to 20,000
				\$	5.55	20,001 plus
WASTEWATER *	\$ 13.46	3,000		\$	2.73	3,001 to 4,500
				\$	4.23	4,501 to 7,500
				\$	6.00	7,501 plus

Surcharge: \$0.005

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

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

### For the year ended September 30, 2018

#### b. Water and Wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	4,966	4,871	-	<del>-</del>
1"	1,171	1,165	-	-
2"	335	302	-	-
4"	73	73	-	-
6"	36	33	-	-
8"	5	1	-	-
10"	0	0	-	-
16"	1	1	-	-
				<del></del>
Total Water:	6,587	6,446	_	-
Total Wastewater:	5,626	5,557	-	•

### 3. Total water consumption during the fiscal year:

Gallons pumped into system: 1,443,198,000

Gallons billed to customers: 1,329,802,462

Water accountability ratio (gallons billed/gallons pumped);

4. Location of the District:

Cities in which District located is located:

County in which District is located: Cameron Is the District located entirely within one county? <u>Yes</u>

Is the District located within a city? Yes

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? No

If yes, by whom? <u>N/A</u> 92.10%

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

E 7
57
00
.02
91
95
82
.00
53
66
40
.01
.57
42
25
54
80
.73

Number of persons employed by the District: 77 Full Time

# Laguna Madre Water District TSI – 3. Temporary Investments

For the year ended September 30, 2018

	Identification or	Interest	Maturity	Ralanc	e at End
Funds	Certificate Number	Rate	Date		Year
ruilus	Certificate Number	Nate	Date	OI .	Teal
General Fund					
Certificate of Deposit	01-72431591	2.55%	3/8/2019	\$	500,769
Certificate of Deposit	01-72032853	2.25%	3/19/2019	1,	012,779
Certificate of Deposit	01-72035342	2.74%	9/9/2019		200,330
Certificate of Deposit	238700	1.55%	10/18/2018		505,819
Certificate of Deposit	01-72318976	2.25%	3/9/2019		202,556
<b>Total General Fund</b>				2,	422,253
<b>Debt Service Fund</b>					
Certificate of Deposit	01-72894387	2.74%	9/9/2018		250,413
Certificate of Deposit	01-72695969	2.25%	3/9/2019		506,390
Certificate of Deposit	01-72941067	2.74%	9/9/2019		250,413
Certificate of Deposit	01-72716515	2.25%	3/9/2019		253,195
Total Debt Service Fo	und	- N N		1,	260,411
Capital Projects Fund					
Certificate of Deposit	01-72408716	2.25%	3/9/2019		151,916
Certificate of Deposit	01-72054984	2.55%	3/8/2019		250,385
Total Capital Project	s Fund				402,301
Emergency Fund					
Certificate of Deposit	01-72705218	2.25%	3/19/2019	1,	012,155
Total Emergency Fur	nd			1,	012,155
Total - All Funds				\$5	,097,120

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

For the year ended September 30,	2018	3				De	bt Service Taxes
Taxes Receivable Beginning of Yea						\$	126,630
2016 Original Tax Levy							1,452,755
Tax Roll Adjustments							(5,458)
Total to be accounted for			-				1,573,927
Tax Collections:							
Current Year							1,428,212
Prior Year					 		24,721
Total Collections					 		1,452,933
Taxes Receivable, End of Year						\$	120,994
Taxes Receivable, By Years							
Prior Years						\$	96,597
Current Year - 2017							24,397
Taxes Receivable, End of Year						\$	120,994
September 30,		2017		2016	2015		2014
Property Valuations:							_
Land	\$	1,314,065,195	\$	1,297,763,711	\$ 1,315,897,695	\$	1,323,826,813
Improvements		2,062,696,293		2,041,412,552	2,040,487,372		2,027,911,719
Personal Property		147,044,871		99,482,510	100,511,349		98,291,083
Total Property Valuations	\$	3,523,806,359	\$	3,438,658,773	\$ 3,456,896,416	\$	3,450,029,615
Tax Rates Per \$100 Valuation:							
Debt Service Tax Rate	\$	0.043860	\$	0.045020	\$ 0.044643	\$	0.039260
Original Tax Levy:	\$	1,452,755	\$	1,451,488	\$ 1,445,227	\$	1,271,531
Percent of Taxes Collected							
To Taxes Levied		98.31%		99.04%	98.58%		95.98%

### Waterworks and Sewer System Revenue Notes, Series 2015

Due During			
Fiscal Year	Principal Due	<b>Interest Due</b>	
<b>Ending</b>	March 1,	March 1 & Sept 1	<u>Total</u>
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
	\$ 4,885,000	\$ 602,250	\$ 5,487,250

### **Unlimited Tax Bonds, Series 2012**

Due During			
Fiscal Year	Principal Due	Interest Due	
<b>Ending</b>	<u>June 1,</u>	June 1 & Dec 1	<u>Total</u>
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
	\$ 12,245,000	\$ 3,703,626	\$ 15,948,626

### **Unlimited Tax Bonds, Series 2016**

Due During			
Fiscal Year	<b>Principal Due</b>	Interest Due	
<b>Ending</b>	<u>June 1,</u>	June 1 & Dec 1	<u>Total</u>
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
	\$ 2,110,000	\$ 327,241	\$ 2,437,241

### **TWDB Revenue Bonds, Series 2016**

Due During			
Fiscal Year	<b>Principal Due</b>	Interest Due	
<b>Ending</b>	March 1,	Mar 1 & Sept 1	<u>Total</u>
2019	280,000	41,916	321,916
2020	280,000	41,916	321,916
2021	280,000	41,902	321,902
2022	280,000	41,594	321,594
2023	280,000	40,796	320,796
2024	280,000	39,550	319,550
2025	280,000	37,912	317,912
2026	285,000	35,975	320,975
2027	285,000	33,710	318,710
2028	290,000	31,092	321,092
2029	290,000	28,207	318,207
2030	295,000	25,105	320,105
2031	300,000	21,773	321,773
2032	300,000	18,248	318,248
2033	305,000	14,541	319,541
2034	310,000	10,620	320,620
2035	315,000	6,495	321,495
2036	320,000	2,192	322,192
	\$ 5,255,000	\$ 513,544	\$ 5,768,544

### **Annual Requirements for All Series**

<b>Due During</b>			
Fiscal Year	<b>Principal Due</b>	<b>Interest Due</b>	
<b>Ending</b>	March 1,	Mar 1 & Sept 1	<b>Total</b>
2019	1,630,000	649,244	2,279,244
2020	1,665,000	611,476	2,276,476
2021	1,700,000	572,650	2,272,650
2022	1,745,000	532,535	2,277,535
2023	1,790,000	483,031	2,273,031
2024	1,830,000	439,441	2,269,441
2025	1,870,000	393,321	2,263,321
2026	1,925,000	344,667	2,269,667
2027	1,975,000	293,763	2,268,763
2028	1,415,000	248,445	1,663,445
2029	1,450,000	208,484	1,658,484
2030	1,500,000	165,935	1,665,935
2031	1,355,000	107,773	1,462,773
2032	1,395,000	62,048	1,457,048
2033	305,000	14,541	319,541
2034	310,000	10,620	320,620
2035	315,000	6,495	321,495
2036	320,000	2,192	322,192
	\$ 24,495,000	\$ 5,146,661	\$ 29,641,661

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

For the year ended September 30, 2018

			<b>Bond Issues</b>		
	Series	Series	Series	Series	Series
	2012 Tax	2015 Revenue	2016 Tax	2016 Revenue	Total
Interest rates	2.0 - 5.0%	2.64%	2.29%	.01 - 1.37%	
Dates Interest Payable	6/1, 12/1	3/1, 9/1	6/1, 12/1	3/1, 9/1	
Maturity dates	6/1/2012 to 6/1/2032	9/1/2015 to 3/1/2027	6/1/2016 to 6/1/2030	3/1/2017 to 3/1/2036	
Bonds outstanding at beginning of current year	\$12,930,000	\$5,360,000	\$2,260,000	\$5,535,000	\$26,085,000
Bonds sold during Current Year	*		-	-	-
Bonds refunded				-	-
Bonds retired	685,000	475,000	150,000	280,000	\$1,590,000
Bonds outstanding at end of					
current year	\$12,245,000	\$4,885,000	\$2,110,000	\$5,255,000	\$24,495,000
Interest paid during the Fiscal Year	\$457,063	\$135,234	\$51,754	\$41,916	\$685,967

### Paying agent Name & City

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

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

Series 2016 Tax: BOKF, NA Dallas, Texas

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

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

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2018:

\$3,081,257

Average annual Debt Service payment (principal & interest) for remaining term of all debt:

\$1,360,833

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

For the year ended September 30,	2018	%	2017	%	2016	%	2015	%	2014	%
GENERAL FUND:										
REVENUE:										
Water Service	5,321,051	55.5%	5,481,245	56.3%	5,060,601	54.7%	4,596,999	57.3%	4,331,211	58.1%
Wastewater Service	3,650,725	38.1%	3,713,416	38.1%	3,496,971	37.8%	3,063,040	38.2%	2,828,501	37.9%
Other Water sales	119,597	1.2%	134,503	1.4%	124,459	1.3%	-	0.0%	-	0.0%
Late fees	62,631	0.7%	58,683	0.6%	76,976	0.8%	63,063	0.8%	57,194	0.8%
Tap Connection fees	237,154	2.5%	162,892	1.7%	134,898	1.5%	167,919	2.1%	111,151	1.5%
Interest on investments	89,446	0.9%	33,305	0.3%	14,836	0.2%	5,195	0.1%	5,990	0.1%
Miscellaneous	104,782	1.1%	154,440	1.6%	350,709	3.8%	126,676	1.6%	125,229	1.7%
TOTAL REVENUES	9,585,386	100.0%	9,738,484	100.0%	9,259,450	100.0%	8,022,892	100.0%	7,459,276	100.0%
,										
EXPENDITURES:										
Professional fees	206,570	2.2%	337,497	3.5%	388,806	4.2%	346,321	4.3%	322,314	4.3%
Payroll and benefits	3,908,057	40.8%	3,657,751	37.6%	3,687,855	39.8%	3,668,463	45.7%	3,810,930	51.1%
Utilities	690,553	7.2%	738,882	7.6%	815,276	8.8%	804,031	10.0%	769,218	10.3%
Materials and supplies	936,154	9.8%	955,147	9.8%	1,162,026	12.5%	986,917	12.3%	846,303	11.3%
Repairs and Maintenance	292,266	3.0%	275,616	2.8%	341,278	3.7%	280,086	3.5%	255,350	3.4%
Other expenditures	799,857	8.3%	722,134	7.4%	196,707	2.1%	206,859	2.6%	167,627	2.2%
Capital outlay	139,642	1.5%	206,388	2.1%	417,400	4.5%	367,244	4.6%	508,905	6.8%
Lease principal	11,831	0.1%	11,480	0.1%	13,329	0.1%	-	0.0%	-	0.0%
Interest and fiscal charges	2,343	0.0%	2,694	0.0%	844	0.0%	-	0.0%	-	0.0%
TOTAL EXPENDITURES	6,987,273	72.9%	6,907,589	70.9%	7,023,521	75.9%	6,659,921	83.0%	6,680,647	89.6%
EXCESS REVENUES OVER (UNDER)										
EXPENDITURES	2,598,113	27.1%	2,830,895	29.1%	2,235,929	24.1%	1,362,971	17.0%	778,629	10.4%

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,	2018	%	2017	%	2016	%	2015	%	2014	%
DEBT SERVICE FUND: REVENUES:										
Property taxes	1,454,793	95.7%	1,473,558	96.7%	1,480,550	97.0%	1,348,644	96.0%	2,668,060	97.5%
Penalty and Interest	25,284	1.7%	30,409	2.0%	35,959	2.4%	51,639	3.7%	62,146	2.3%
Interest on investments	39,839	2.6%	19,365	1.3%	7,062	0.5%	3,663	0.3%	7,063	0.3%
Miscellaneous	61	0.0%	12	0.0%	2,115	0.1%	671	0.0%	-	0.0%
TOTAL REVENUES	1,519,977	100.0%	1,523,344	100.0%	1,525,686	100.0%	1,404,617	100.0%	2,737,269	100.0%
5										
EXPENDITURES:										
Tax collection expense	35,367	2.3%	35,827	2.4%	42,532	2.8%	33,636	2.4%	3,423	0.1%
Appraisal charge	18,647	1.2%	18,605	1.2%	15,707	1.0%	30,221	2.2%	101,873	3.7%
Debt service, interest and fees	2,278,266	149.9%	2,279,584	149.6%	1,939,105	127.1%	2,504,931	178.3%	3,204,346	117.1%
Bond issue costs	=	0.0%		0.0%	-	0.0%	140,385	10.0%	-	0.0%
TOTAL EXPENDITURES	2,332,280	153.4%	2,334,016	153.2%	1,997,344	130.9%	2,709,173	192.9%	3,309,642	120.9%
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(812,303)	(53.4%)	(810,672)	(53.2%)	(471,658)	(30.9%)	(1,304,556)	(92.9%)	(572,373)	(20.9%)
TOTAL ACTIVE RETAIL WATER										
CONNECTIONS	6,446		6,369		6,278		6,319		6,208	
TOTAL ACTIVE RETAIL WASTE WATER	5,557		5,519		5,466		5,413		5,344	

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

### For the year ended September 30, 2018

Complete District Mailing Address: 105 Port Road

Port Isabel, TX 78578

District Business Telephone

(956) 943-2626

Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): October 13, 2017

Limit on Fees of Office that a Director may receive during a fiscal year (Set by Board Resolution - TWC 49.0060): \$\frac{1}{2} - 0 - \frac{1}{2}\$.

Term of Office

Name and Address	(Elected or Appointed) or Date Hired	Office	es of e Paid /2018	Reimbu	ense Irsement 1/2018	Title at Year End
BOARD MEMBERS						
Scott Friedman PO Box 3897 South Padre Island, TX 78597	11/16 - 11/20	\$	-	\$	-	Chairman
Rick Wells 115 S Trevino Port Isabel, TX 78578	11/14 - 11/18	\$	-	\$	-	Vice-Chairman
Doyle Wells, III PO Box 3633 South Padre Island, TX 78596	7/16 - 11/18	\$	-	\$	-	Secretary
Alex Avalos 212 W Esperanza / PO Box 2867 South Padre Island, TX 78596	9/17 - 11/20	\$	-	\$	-	Director
Herb Houston 4 Whooping Crane Laguna Vista, TX 78578	9/17 - 11/20	\$	-	\$	-	Director

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

For the year ended September 30, 2018

	Term of Office		_		
	(Elected or Appointed) or	Fees of Office Pai		xpense bursement	Title at
Name and Address	Date Hired	9/30/201		30/2018	Year End
Name and Address	Date Till ed	3/30/201	0 3/.	00,2010	Tear Life
KEY ADMINISTRATIVE PERSONNEL					
Carlos J. Galvan, Jr.					
1636 Oklahoma Street					
Port Isabel, TX 78578	2001	\$ -	\$	-	General Manager
Charles Ortiz					
5587 Garden Breeze Ct.					
Brownsville, TX 78526	2013	\$ -	\$	-	District Engineer
Eduardo Salazar					
33097 Washington Ave.					
Port Isabel, TX 78578	2018	\$ -	\$	-	Director of Finance
Robert Gomez					
1425 Catherine Cir.					
Brownsville, TX 78520	2017	\$ -	\$	-	Director of Operations
CONSULTANTS					
Beatty Bangle Strama					
400 West 15 St Ste 1450 Austin, TX 78701	2015	\$ 72,733.	11 \$		Attornov
nusun, 17 70701	2012	<i>⇒ 12,133.</i>	тт Э	-	Attorney
Estrada Hinojosa & Co., Inc.					
1717 Main Street					
Dailas, TX 75201	1999	\$ 10,000.	00 \$	-	Financial Advisor
G5 Internet Services					
311-D Vogel Drive					
Mercedes, TX 78570	2012	\$ 40,135.	80 \$	-	IT Consultant

### **OTHER INFORMATION**

# Laguna Madre Water District Top Ten Taxpayers

For the year ended September 30, 2018

Owner ID	Taxpayer Name	Master Value	Taxable Value
642489	SAN ROMAN WIND I LLC	\$ 52,800,430	\$ 52,800,430
324942	AEP TEXAS INC	\$ 16,592,720	\$ 16,592,720
536143	SUBSEA 7 PORT ISABEL LLC	\$ 11,375,685	\$ 11,375,685
562039	SPI BEACH WATER RESORT WATERPARK LLC	\$ 10,882,174	\$ 10,882,174
336660	PENINSULA ISLAND RESORT & SPA LLC	\$ 10,346,917	\$ 10,346,917
580926	AGORA USA LP	\$ 10,312,156	\$ 10,312,156
526932	SAPPHIRE VP LP ATTN STEPHEN SWAN	\$ 9,000,000	\$ 9,000,000
541018	BAHIA MAR TOWER LLC	\$ 7,361,990	\$ 7,361,990
37416	AEP TEXAS CENTRAL CO	\$ 7,188,180	\$ 7,188,180
546094	AFFILIATED HOSPITALITY LLC	\$ 6,689,867	\$ 6,689,867

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# Laguna Madre Water District Top Ten Rate Payers

For the year ended September 30, 2018

Account Name	Address	City	Amount
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	\$ 328,025
SCHLITTERBAHN SO PADRE	200 PADRE BLVD	SOUTH PADRE ISLAND	\$ 310,846
TEXAS PACK INC	508 PORT ROAD	PORT ISABEL	\$ 218,225
CAMERON COUNTY PARKS	1 PADRE BLVD	SOUTH PADRE ISLAND	\$ 169,748
SSPIBR, LTD DBA PEARL SO PADRE	310 PADRE BLVD	SOUTH PADRE ISLAND	\$ 155,163
WAL-MART STORES	1401 HWY 100	PORT ISABEL	\$ 85,235
SAPPHIRE CONDOS	310-A PADRE BLVD	SOUTH PADRE ISLAND	\$ 77,596
SAIDA TOWERS II	400 PADRE BLVD	SOUTH PADRE ISLAND	\$ 76,658
BRIDGEPOINT CONDOS	334 PADRE BLVD	SOUTH PADRE ISLAND	\$ 76,444
SOUTH PADRE ISLAND GOLF COURSE	1 GOLF HOUSE RD	LAGUNA VISTA	\$ 68,085

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**COMPLIANCE SECTION** 

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Carr, Riggs & Ingram, LLC 3125 Central Blvd. Brownsville, TX 78520

(956) 546-1655 (956) 546-0377 (fax) CRIcpa.com

## 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, 2018, and the related notes to the financial statements, which collectively comprise Laguna Madre Water District's basic financial statements, and have issued our report thereon dated February 6, 2019.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **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*.

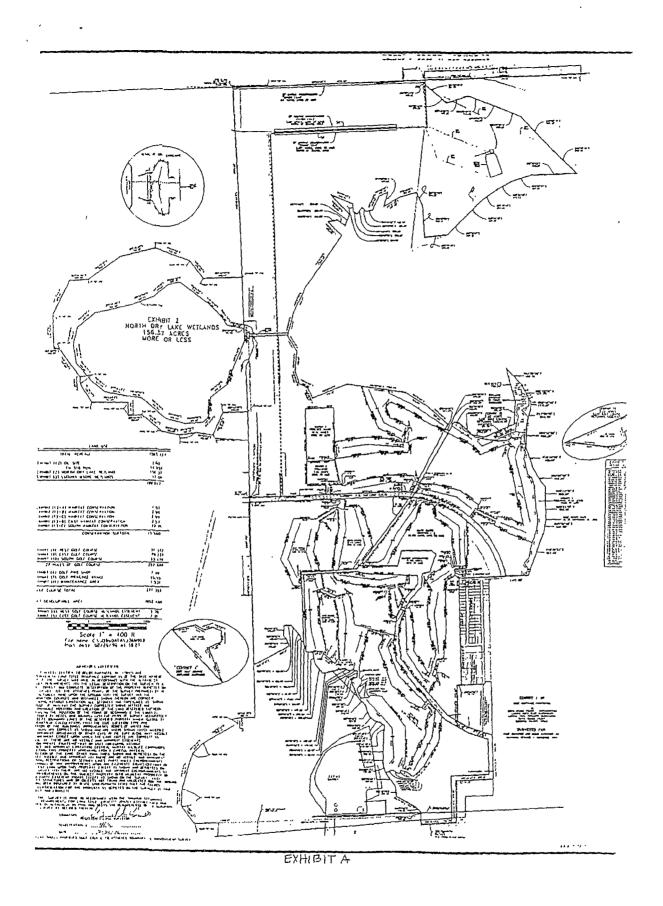
### **Purpose of this Report**

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, LLC

Can Rigge & Ingram, L.L.C.

Brownsville, Texas February 6, 2019



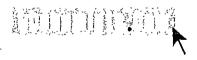


# LAGUNA MADRE WATER DISTRICT

## 2014 WATER AND WASTEWATER RATE STUDY AND LONG-TERM FINANCIAL PLAN

February 2015 FINAL

Prepared by:



Portland - Dallas - Phoenix - Tampa

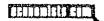
Dallas Office Address:
5500 Democracy Drive, Ste. 130
Plano, Texas 75024
(972) 378-6588
(972) 378-6988 fax
www.economists.com

Project Manager: Dan V Jackson

## LAGUNA MADRE WATER DISTRICT WATER AND WASTEWATER RATE STUDY AND LONG-TERM FINANCIAL PLAN

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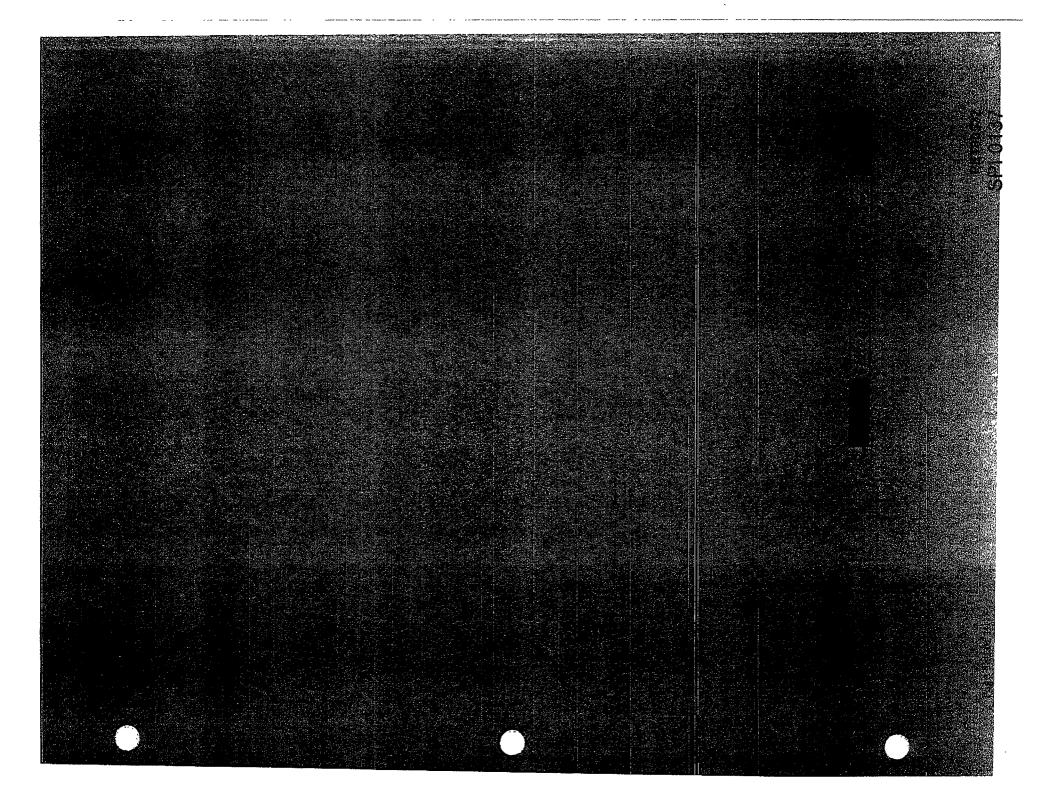
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## Acknowledgements

During the course of this study, several individuals provided invaluable perspective and considerable time and effort in assisting the project team. These professionals included the District's Board of Directors, Carlos Galvan, Charles Ortiz, Minnie Mata, Jane Kirkpatrick, and Daisy Bodden. The participation of these individuals was critical to the success of this study, and the project team owes a debt of gratitude to them for their hard work, dedication and professionalism.

The project team has relied upon the extensive data supplied by the District. Thus, the integrity of the study is largely dependent upon the accuracy of this data. Every effort has been made by the project team to validate and confirm the information contained herein prior to the preparation of the final study documents. This report presents no assurance or guarantee that the forecast contained herein will be consistent with actual results or performances. These represent forecasts based on a series of assumptions about future behavior, and are not guarantees. Any changes in assumptions or actual events may result in significant revisions to the forecast and its conclusions. The cash flow projections and debt service coverage calculations are not intended to present overall financial positions, results of operations, and/or cash flows for the periods indicated, in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants.



## **Executive Summary**



In August 2014 the Laguna Madre Water District ("the District") engaged **Economists.com** to prepare a water and wastewater rate study and long-term financial plan. Over the past decade the District has faced many operational and financial challenges. These challenges have included:

- The growth of homes, hotels, restaurants and other accounts in its service area
- The increasing scarcity of water supply and the persistent drought in the Rio Grande Valley
- The need to fund a significant level of capital improvements to ensure the continued high quality of service

The purpose of this study is to assess the District's current rate structure and its ability to recover sufficient revenues to finance operating and capital expenditures over the next decade.

## **Rate Comparison**

In order to illustrate the relative burden of the District's ratepayers, the District's water and wastewater rates were compared to surrounding communities in the Rio Grande Valley. The number of representative cities was limited to allow the data in this analysis to be manageable and easily analyzed.

**Table ES-1** and **Chart II-7** summarize the data collected for this analysis. The comparison is for 10,000 gallons of water usage, and 5,000 gallons of wastewater usage. These totals are standard for rate comparisons in Texas, although it should be noted that under the District's rate charging methodology, 10,000 gallons of water results in 7,500 gallons of wastewater charge.

The tables reveal that ratepayers in the District pay among the lowest rates in the Rio Grande Valley for residential water and wastewater service. The District's ratepayers also pay significantly less than the state average for water and wastewater service.

Finally, widely-respected organizations such as the Raftelis Group and the American Water Works Association Research Foundation have stated that they expect the average water and wastewater rate to rise 5.0% annually over the next decade. Increasing costs will continue to place pressure on water and wastewater managers throughout the United States to adjust rates accordingly.

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PET00533 SPI 0138

Table ES-1

City	10,000 Water	5,000 WW	Total
***	25.00	24.40	47.00
_MWD *	25.90 29.53	21.10	47.00
Brownsville		23.69	53.22
Donna - distant	43,56	25.21	68.77
Edinburg	28.21	18.76	46.97
Harlingen	19 90	21.03	40.93
os Fresnos	51.23	30.99	82.22
VicAllen	18 65	16.00	34.65
Mercedes	33,33	23.00	56,33
Mission	25 42	15 20	40 62
harr	28.15	19 90	48.05
Raymondville	52.53	23,36	75.89
San Benilo	40.82	30.68	71 50
San Juan	28.55	18 60	47.15
Veslaco	42.72	24.30	67.02
State of Texas	52 33	25.44	77 77
Dans for \$7 E0 w/64	49 per gal for Senior C	·	
	.61 per gal for Senior C		
	.6 i per gai for Senior C nd Includes 2000 gal fo		

One issue that arose during the course of the project team's review was the appropriateness of the District's current minimum charge. As shown in Table II-5, for 5/8" (primarily residential) meters, the District charges \$11.90 for water and \$12.35 for wastewater. Further, the District provides an allowance of 4,000 gallons in its minimum charge. **Table ES-2** compares the District's policy with other utilities in the Rio Grande Valley.

Table ES-2

LAGUNA MADRE WATER DISTRICT COMPARISON OF MONTHLY MINIMUM CHARGES									
		Monthly Min	lmum Cha	rge					
City	1	Nater	Was	tewater					
Gallons = 0									
Brownsville	\$	10 52	\$	7 19					
Donna		13 54		-					
McAllen		5 65		9 00					
Mercedes		na		na					
Pharr		16 50		15.00					
San Juan		12 05		11.00					
Weslaco		15 62		15 45					
Gallons = 1,000									
Mission		9 22		7 95					
Gailons = 2,000									
Los Fresnos		19.31		20,67					
Raymondville		20,45		17.18					
San Benito		20 59		29.09					
Gailons = 3,000									
Hadingen		7.93		2.18					
Edinburg		10 78		8 05					
Gallons = 4,000									
LMWD		11 90		12.35					



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February 2015 -- FINAL

## **Customers and Meters – Current Year and Forecast**

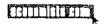
According to standard utility ratemaking methodology, in order to allocate revenue requirements equitably among system users, customers must be classified into relatively homogeneous groups with similar usage characteristics or service demands. Costs are then allocated to the customer classes in proportion to each class' usage characteristics.

As stated in Section I of this report, the District defines customer classes by meter size, beginning with 5/8" and including 1", 2", 4" and 6" meters. Account growth was robust during the period 2000-2010, but has been significantly weaker since 2011.

**Table ES-3** presents the project team's ten-year forecast of future water and wastewater connections by defined customer class. The tables reveal that the project team is forecasting a modest growth rate of approximately 40 new accounts per year. The totals are the same for water and wastewater because of the expectation that all future accounts will have both water and wastewater service. The tables further show that water accounts are forecast to reach a total of 6,498 by FY 2024 or an annual growth rate of 0.71%. Wastewater accounts are forecast to reach a total of 5,768 by FY 2025, or an annual growth rate of 0.67%. The addition of these new connections will result in both non-recurring connection fees and increasing monthly water revenues.

Table ES-3

LAGUNA MADRE WATER DISTRICT FORECAST TOTAL ACCOUNTS WATER and WASTEWATER Customer Classes											
	5/8" Meter	1" Meter	2" Meter	4" Meter	6" Meter	8" Meter	Total				
2	Maarioriotikaa	an <b>u</b> r kan									
2011	4,623	1,039	472	72	30	-	6,237				
2012	4,583	1,062	231	74	30	0	5,980				
2013	4,595	1,071	231	75	30	1	6,002				
Aug 13-Jul 14	4,618	1,055	278	75	31	1	6,058				
2015	4,617	1,085	268	76	31	1	6,098				
2016	4,667	1,095	298	82	35	1	6,178				
2017	4,692	1,100	303	. 85	37	1	6,218				
2018	4,717	1,105	308	88	. 39	1	6,258				
2019	4,742	1,110	313	91	41	1	6,298				
2020	4,767	1,115	318	94	43	1	6,338				
2021	4,792	1,120	323	97	45	1	6,378				
2022	4,817	1,125	328	100	47	1	6,418				
2023	4,842	1,130	333	103	49	1	6,458				
2024	4,887	1,135	338	106	51	1	6,498				
	WASTEWATER TO	tal Accounts									
2011	4,295	779	212	69	30		5,385				
2012	. 4,246	792	214	71	. 30	0	5,354				
2013	4,248	797	214	72	30	1	5,362				
Aug 1 3-Jul 14	4,260	798	214	71	30	1	5,374				
2015	4,298	808	220	74	32	1	5,433				
2016	4,298	813	225	77	34	1	5,448				
2017	4,323	818	230	80	36	1	5,488				
2018	4,348	823	235	83	38	1	5,528				
2019	4,373	828	240	86	40	1	5,568				
2020	4,398	833	245	89	42	1	5,608				
2021	4,423	838	250	92	44	1	5,648				
2022	4,448	843	255	95	46	1	5,688				
2023	4,473	848	260	98	48	1	5,728				
2024	4,498	853	265	101	50	1	5,768				



## Customer Water and Wastewater Usage - Historical and Forecast

**Table ES-4** presents the District's historical and forecast water consumption and billing units. The District's billing system only tabulates billing unit totals net of minimum volumes. This means that the numbers in Table III-7 represent only consumption for which volume charges are assessed.

The table reveals that usage declined from its high in the dry year of 2011. Usage is forecast to increase nominally in each year of the next decade.

Table ES-4

	FORE	CAST TOTAL	L BILLED CO	NSUMPTION	I NET OF MI	NIMUMS	
	5/8" Meter	1" Meter	2" Meter	4" Meter	6" Meter	8" Meter	Total
1	Avzeracy of the	ensumption 🖖					
2011	396,110,200	186,943,300	122,515,100	223,951,400	46,220,400	-	975,740,400
2012	385,062,000	182,022,700	74,398,200	213,190,500	40,147,500	53,000	894,873,900
2013	361,885,100	172,010,900	63,761,300	207,469,700	39,023,500	2,600	844,153,100
Aug13-Jul14	332,942,800	156,709,100	79,626,900	195,093,900	52,272,200	100	816,645,000
2015	333,844,205	157,070,181	80,318,106	198,944,438	53,958,400	100	824,135,429
2016	334,743,182	157,430,434	81,003,414	202,721,864	55,593,503	100	831,492,496
2017	335,639,751	157,789,864	81,682,973	206,430,190	57,181,889	100	838,724,767
2018	336,533,932	158,148,477	82,356,925	210,073,076	58,727,345	100	845,839,855
2019	337,425,744	158,506,279	83,025,406	213,653,867	60,233,175	100	852,844,571
2020	338,315,204	158,863,275	83,688,548	217,175,634	61,702,276	100	859,745,038
2021	339,202,332	159,219,471	84,346,477	220,641,203	63,137,213	100	866,546,796
2022	340,087,146	159,574,872	84,999,314	224,053,180	64,540,262	100	873,254,874
2023	340,969,664	159,929,482	85,647,174	227,413,978	65,913,459	100	879,873,858
2024	341,849,904	160,283,309	86,290,171	230,725,832	67,258,632	100	886,407,948
	WASTEWATER	Billing Units					<del></del>
2015	218,846,028	76,531,277	28,364,251	137,477,232	28,714,603	75	489,933,466
2016	220,126,429	77,004,862	29,008,893	143,050,633	30,509,265	75	499,700,157
2017	221,406,829	77,478,447	29,653,535	148,624,034	32,303,928	75	509,466,848
2018	222,687,230	77,952,031	30,298,177	154,197,435	34,098,590	75	519,233,539
2019	223,967,630	78,425,616	30,942,819	159,770,837	35,893,253	75	529,000,230
2020	225,248,030	78,899,200	31,587,461	165,344,238	37,687,916	75	538,766,921
2021	226,528,431	79,372,785	32,232,103	170,917,639	39,482,578	75	548,533,612
2022	227,808,831	79,846,370	32,876,745	176,491,040	41,277,241	75	558,300,303
2023	229,089,231	80,319,954	33,521,387	182,064,442	43,071,904	75	568,066,994



## Cost of Service and Net Revenue Requirement

**Table ES-5** presents the District forecast Net Revenue Requirement for the ten-year period. The table reveals that the total revenue requirement is expected to increase by an average annual rate of **5.4%** over the next decade. The primary reasons for this are the debt service from the CIP and the increases in operating expenses.

Table ES-5

			LAGUNA MADR IND FORECAST			JIRE	MENT				-	
NARIO:	2015 02 27 Alternative 1 Pl Reclamation											
	Operating Expenses	Capital Outlays	Current Debt Service		Future Dobt Service		Total Cost of Service		Less Non-Rate Revenues		Net Revenue Requirement	
	WAST-Religious in 1815	egunesiens et a		<b>355</b>								
2015	\$ 2,984,854					\$	3,539,712	\$	349,477	\$	3,190,235	
2016	3,105,600	331,918	232,47		-		3,669,988		252,835	-	3,417,153	
2017	3,515,624	341,875	232,12		-		4,089,623		255,818		3,833,805	
2018	3,658,250	352,131	231,57		-		4,241,952		258,839		3,983,113	
2019	3,806,933	362,695	232,54		379,770		4,781,938		261,900		4,520,037	
2020	3,961,945	373,576	231,1		379,770		4,946,404		265,003		4,681,400	
2021	4,123,574	384,783	230,99		379,770		5,119,121		268,150		4,850,971	
2022	4,292,119	396,327	232,51		379,770		5,300,728		271,343		5,029,385	
2023	4,467,894	408,217	231,93		379,770		5,487,813		274,583		5,213,230	
2024	4,651,228	420,463	223,68		759,540		6,054,911		277,872		5,777,039	
	WASTEWATER RE	venue Regulreme	nto Basks									
2015	3,525,442	454,250	439,67	1	•		4,419,363		197,129		4,222,234	
2016	3,669,965	467,878	439,41				4,577,252		99,428		4,477,824	
2017	3,820,629	481,914	438,75				4,741,299		101,363		4,639,936	
2018	3,977,717	496,371	437.70		_		4,911,798		103,346		4,808,451	
2019	4,141,523	511,262	439.54		90,815		5.183,140		105,381		5,077,769	
2020	4,312,354	526,600	436.84		90,815		5,366,612		107,467		5,269,146	
2021	4,490,533	542,398	436,61		90,815		5,560,364		109,606		5,450,758	
2022	4,676,398	558.670	439,48		90,815		5,765,371		111,801		5,653,570	
2023	4,870,302	575,430	438,39		90,815		5,974,938		114,052		5,860,886	
2024	5,072,614	592,693	422,79		181,629		6,269,730		116,362		6,163,368	
	TOTAL Revenue R	equirement										
2015	6.510.295	776,500	672,28	0	-		7,959,075		546,606		7,412,469	
2016	6,775,565	799,795	671,88		_		8,247,240		352,263		7,894,977	
2017	7,336,253	823,789	670,88		_		8,830,922		357,181		8,473,741	
2018	7,635,267	848,503	669,28				9,153,750		362,186		8,791,664	
2019	7,948,455	873,958	672,08		470,585		9,965,077		367,281		9,597,797	
2020	8,274,299	900,176	667,95		470,585		10,313,016		372,470		9,940,546	
2021	8,614,107	927,182	667,61		470,585		10,679,485		377,756		10,301,729	
2022	8,968,517	954,997	672,00		470,585		11,066,098		383,143		10,501,725	
2022	9,338,196	983,647	670,32		470,585				•			
2023	9,723,842						11,462,751		388,635		11,074,116	
2024	9,723,892	1,013,156	646,47	4	941,169		12,324,642		394,234		11,930,407 5.4%	

Section IV and Appendix A present all calculations behind the development of the net revenue requirement in detail. The following primary assumptions were utilized in the development of this forecast:

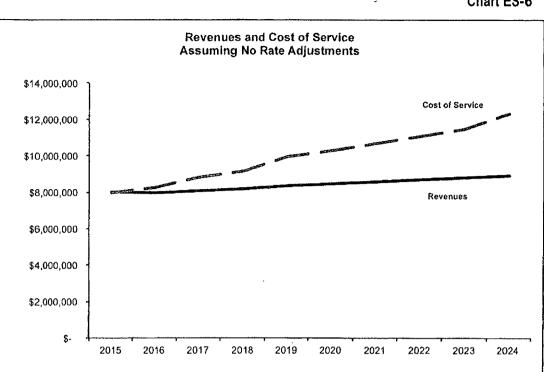
- Most personnel and operating expenses were forecast to increase approximately 3.0% per year.
- The District is not expected to add significant numbers of additional personnel in the next decade.
- Certain expenses, such as chemicals, electricity, gasoline, insurance and workers compensation, are forecast
  to increase at rates exceeding the inflation rate. This is because historically these cost categories have been
  subjected to higher than average increases.
- Certain expenses are increased proportionately as the District's customers and billing units increase.
- The District is forecast to construct and place into operation a reclamation facility at the Port Isabel Wastewater Treatment Plant in FY 2017. This reclamation facility will be used to offset the District's needs for water rights. All capital and construction costs are assumed to be funded through tax bonds, which do not impact the District's rate structure. District personnel have estimated that the operating costs for this facility will be \$1.43 per 1,000 gallons, which results in an initial annual cost of \$283,209. These costs are forecast to increase by approximately 3.0% per year.
- There is no assumption for seawater desalination costs in this ten-year forecast. For the purposes of this study, if a seawater facility is constructed, it would be beyond the ten year timeframe of this cost of service study.
- Capital outlay expenditures are forecast to increase at a rate of 3.0% per year.
- The District's CIP over the next five years is estimated to be \$8,613,000 for the water system and \$27,184,640 for the wastewater system. Estimates for the remaining years 6-10 are based on averaging the first five years.
- Further, the District is forecast to issue revenue bonds totaling \$4,600,000 for the water system and \$1,100,000 for the wastewater system in the next five years. Similar totals are forecast for the remaining years 6-10.
- The District currently has one revenue bond, a Series 2007 issue that funded both water and wastewater system improvements.
- Future revenue debt is assumed to have a 20-year term, 4.0% interest rate and level principal and interest payments.

## **Revenues under Existing Rates**

As outlined in Section II, The District adopted its current rate structure in December 2014. However, as **Chart ES-6** illustrates, the District's current rate structure will not be sufficient to fund all operating and capital obligations over the ten-year period. He chart shows that without some form of rate adjustments, the cost of service will consistently be greater than revenues. The District's revenues are forecast to increase nominally due to future account growth, but this increase will not be sufficient to fund cost increases.

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#### Chart ES-6

## Rate Plan Alternative 1 – Status Quo

The proposed rate plan assumes that the District chooses to maintain the same rate structure that currently exists. There would be no changes to the gallon allowance or the rate blocks. Under this scenario a series of annual rate adjustments would be made to all customer classes.

The rate plan for the water utility is presented in **Table ES-7**, and for the wastewater utility is in **Table ES-8**. An analysis of the impact of the rate plan on average usage for each meter size is presented in **Table ES-9**. The following is notable about this rate plan:

- No change in water rates is recommended for 2015, 2016 or 2017. The first water rate adjustment would be in effect on January 1 2018.
- Wastewater rate adjustments are recommended to take effect on January 1 of each of the next five years.
- The reason for the larger wastewater rate adjustments is to ensure that within five years the wastewater rates fully fund the cost of service, as outlined earlier in this section.
- For a 5/8" customer, the average increase for 10,000 gallons of usage in January 2015 would be between \$2 and \$3 per month each year for the five-year period.

Table ES-7

		A		6 02 27 Alternat						
			Effective	Effective		Effective		Effective	1000	Effective
		Prior	Jan-18	Jan∙16		Jan-17		Jan-18		Jan-19
		EVER MEMORY								
Monthly Charge		11 90	11.90 \$	11,90	\$	11 90	\$	12 26	\$	12.62
Usage Charge Per	1,000 Gai	-			•		•			
4,001	10,000	2 40	2.40	2 40		2 40		2 47		2.55
10,001	20,000	3.78	3,76	3,78		3 78		3 89		4.01
20,001	Above	5 39	5.39	5 39		5 39		5 55		5.72
		LAMID V								
Monthly Charge		\$ 16,48	23.07 \$	23 07	\$	23 07	\$	23 76	\$	24 47
Usage Charge Por	1,000 Gal									
6,001	20,000	2 52	2.52	2 52		2 52		2 60		2 67
20,001	40,000	3 78	3.78	3.78		3,78		3,89		4 01
40,001	Above	5 32	6,32	5 32		5 32		5.48		5 64
		Z-MGG)								
Monthly Charge		\$ 79,33 <b>\$</b>	111.06 \$	111.06	\$	111 06	\$	114 39	\$	117 82
Usage Charge Per	1,000 Gal				•		-		-	
26,001	100,000	2 63	2.63	2.63		2.63		2,71		2.79
100,001	200,000	3 95	3.95	3 95		3 95		4 07		4 19
200,001	Abovo	5 90	6.90	5 90		5 90		6 08		6.26
Monthly Charge		\$ 299.03 \$	418.64 S	418 64	S	418 54	\$	431 20	5	444 14
Usage Charge Per	1,000 Gal				•		•		•	
101,001	600,000	2.76	2.76	2 76		2 76		2,84		2,93
600,001	1,000,000	4.14	4.14	4 14		4 14		4 28		4.39
1,000,001	Above	5.69	6.69	5 69		5,69		5 86		6.04
		er web.								
Monthly Charge		\$ 550,00 \$	784.00 \$	784 00	\$	784 00	\$	807 52	\$	831 75
Usage Charge Per	1,000 Gal	•								
101,001	600,000	2,60	2.60	2.60		2,60		2,68		2 76
600,001	1,000,000	3 90	3.90	3,90		3 90		4 02		4.14
1,000,001	Above	5 25	6.26	5,25		5 25		5 41		5 57

Table ES-8

				_	AGUNA MADRE								
				Alter	native:				Pi Reclamation		Sant Carlo	an in	1992 a 201 15 4
					Effective		Effective		Effective	•	Effective	,	Effective
		Pric	or		Jan-16		Jan-16		Jan-17		Jan-18		Jan-19
		5/8" Meter											
Monthly Charge		\$	12 35	\$	12.36	\$	12 35	5	13 46	\$	14 67	\$	15.99
Usage Charge Per	1,000 Gal												
4,001	10,000		2.50		2.50		2.50		2.73		2.97		3,24
10,001	20,000		3.88		3,88		3 88		4 23		4.61		5.02
20,001	Above		5 50		8,60		5 50		6.00		6 53		7.12
		1" Meter											
Monthly Charge		\$	15.59	\$	21.83	\$	21 83	\$	23 79	\$	25.94	\$	28.27
Usage Charge Por	1,000 Gal	-	_	-		•				•			
6,001	20,000		2 73		2.73		2 73		2.98		3 24		3.54
20,001	40,000		4 10		4.10		4 10		4 47		4 87		5,31
40,001	Above	•	8 12		6.12		6.12		6.67		7 27		7.93
		2" Motor											
Monthly Charge		\$	106 04	\$	148,46	\$	148,46	\$	161 82	\$	176,39	\$	192,26
Usage Charge Per	1,000 Gal	-		•				-		-			
26,001	100,000		2,97		2.97		2 97		3.24		3 53		3 85
100,001	200,000		4 46		4,46		4,46		4 88		5.30		5.78
200,001	Above		6 18		6.18		6 18		6.74		7 34		8 00
Manthia Obassa		4" Motor	0.40.00				0.40	_	074 - 1		40.4		
Monthly Charge		\$	243 26	\$	340.66	\$	340 56	\$	371 21	\$	404 62	2	441 04
Usage Charge - Per									· -				
101,001	600,000		3 09		3,09		3 09		3.37		3 67		4.00
600,001	1,000,000		4 63		4.63		4.63		5 0 5		5 50		6.00
1,000,001	Above		6.30		6,30		6 30		6 87		7 49		8 16
		6" Meter											
Monthly Charge		<b>5</b> ,	400 00	\$	560.00	5	560 00	\$	810 40	\$	665 34	\$	725 22
Usage Charge Per	1,000 Gal	•											
101,001	500,000		2,70		2.70		2 70		2.94		3.21		3 50
500,001	1,500,000		4 05		4.05		4 05		4 4 1		481		5.24
1,000,001	Above		5 40		5.40		5 40		5 89		6.42		699

Table ES-9

	WATER DISTRICT		Alternative:	2015 02 27 Altern	ative 1 Pl Reclamation		
	MONTHLY Gallons	Prior	Effective Jan-16	Effective Jan-16	Effective Jan-17	Effective Jan-18	Effective Jan-19
				I			
Low	5,000	\$ 28.53	\$ 28.53	\$ 28.53	\$ 29.81 \$ 1.28	31.63 <b>\$</b> 1.82	33 59 1.96
Average	10,000	49.90	49.90 -	49.90	52.02 2 12	55.13 3.10	58.46 3.34
High	30,000	211.95	211.95	211 95	220.41 8.46	233 16 12 76	2 <b>46</b> 85 13,69
		FAUCULE SE		Ţ			
Average	20,000	96.02	108.85 12.83	108.85	113,39 4 54	120.09 6.70	127,30 7.20
High	40,000	233.12	245.95 12.83	245.95	256.02 10.08	271.03 15.01	287,14 16 11
Average	50,000	306 81	380.96 74.15	380 96	399,33 18,37	424.66 25.33	451 95 27.29
High	100,000	549.68	623.83 74.15	623.83	652.23 28.40	692.43 40.20	735.70 43.27
		<b>*</b> - 1115					
Average	200,000	1,050.04	1,266.95 216.91	1,266.95	1,318.46 51,51	1,395.44 76.98	1,478.10 82.66
High	400,000	2,065.54	2,282.45 216.91	2,282 45	2,375,67 93.22	2,514.69 139.01	2,663 96 149.28
		Comment of the					
\verage	300,000	1,885.00	2,269.00 384.00	2,269 00	2,355.85 86.85	2,489.64 133.79	2,633.12 143.48
ligh	600,000	3,503.75	3,887.75 384.00	3,887.75	4,038.39 150.64	4,269.00 230.61	4,516 39 247.39

#### SECTION I

## Introduction



## **Background and Study Objectives**

In August 2014 the Laguna Madre Water District ("the District") engaged **Economists.com** to prepare a water and wastewater rate study and long-term financial plan. Over the past decade the District has faced many operational and financial challenges. These challenges have included:

- The growth of homes, hotels, restaurants and other accounts in its service area
- The increasing scarcity of water supply and the persistent drought in the Rio Grande Valley
- The need to fund a significant level of capital improvements to ensure the continued high quality of service

The purpose of this study is to assess the District's current rate structure and its ability to recover sufficient revenues to finance operating and capital expenditures over the next decade.

In order to achieve these objectives, the project team performed the following scope of services:

- Reviewed the District's water and wastewater system operating and capital costs for the current and future years. Forecast these costs for a period ten years into the future, taking into account the significant additional capital requirements outlined in Section IV.
- Forecast expected growth in the District's service area and assessed its impact on both revenues and expenses.
- Provided alternative recommended water and wastewater rate structures by defined customer class for both the current year and a forecast period ten years into the future.
- 4) Analyzed and provided a set of recommendations for raw water charges
- 5) Ensured that the recommended rates under all alternatives meet generally accepted ratemaking standards, as deline ated by such organizations as the American Water Works Association and the Texas Commission on Environmental Quality. The rates should be just and reasonable, in line with the District's operating and capital costs, and applied in a fair and equitable manner to all customer classes.



6) Developed a comprehensive rate model that calculates water and wastewater rates for the current year and forecast period.

The project team visited the District several times during the course of this project in order to gather data and obtain critical background information for use in this study. Additional telephone conferences and fax/data transfers took place during the course of the study. Throughout this engagement, District officials and advisors were kept continuously apprised of the project team's progress.

This study presents a summary of the methodology and calculations behind the recommendations presented by the project team to the District. All aspects of the scope of services have been completed.

## **Report Organization**

This report is organized into the following sections:

**Section II – Introduction --** outlines the background, objectives and scope of this water and wastewater rate study and long-term financial plan.

**Section II -- Demographic Profile** - presents a demographic profile for the Laguna Madre Water District. This includes a comparison of the surrounding area's current monthly charges for water and wastewater service. It also analyzes the District's current rate structure including the volumes included in the monthly charges.

**Section III – Test Year and Forecast Volumes** – analyzes the District's water and wastewater customer base. Presents current year and forecast volumes by defined customer class. Also analyzes the peak day requirements for each customer class.

Section IV – Test Year and Forecast Volumes and Revenue Requirements -- outlines the process of developing the water and wastewater cost structure. The total current or "test year" revenue requirements are compiled, and costs are functionalized between treatment, distribution, administration and customer billing. Using the test year as a basis, costs are forecast for a period ten years into the future.

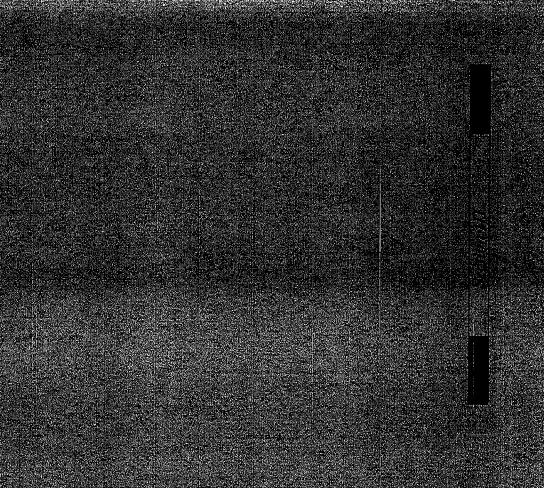
Section V – Rate Plan Alternatives – analyzes the ability of the current rate structure to fund all operating and capital requirements over the next decade, including the need to fund a portion of the District's long term capital improvements plan through revenue bonds. Presents alternative rate and financial plans for the District to incorporate to ensure that all long-term goals are achieved.

Appendix A – presents a hard copy printout of the interactive Microsoft Excel spreadsheet model developed for the District to calculate current and future water and wastewater revenue requirements and rates. The model automatically generates all calculations based on a set of defined user inputs. A copy of this model will be provided to the District so that staff may use it as a tool for future rate development.

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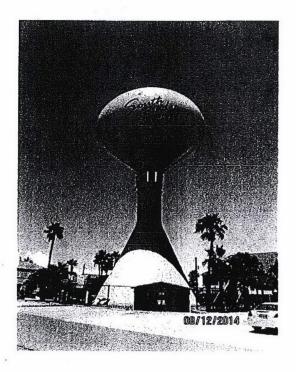
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**SECTION III** 

## **Test Year and Forecast Volumes**



The first step in analyzing the District's current and projected expenses and revenue requirements is to examine current and historical water and wastewater utility conditions. Correspondingly, the analysis of the District's existing rate structure for water and wastewater service begins with a thorough review of patterns of usage, both for the system as a whole and for specified customer classes.

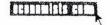
Customer billing records provided by District staff present detailed data on the number and usage levels by customer class for each billing period, as well as water and wastewater revenues. Additionally, District staff expended considerable effort in generating specific usage reports for use by the project team during the preparation of this study. The volumetric data presented in this section is derived primarily from these sources. The project team appreciates the level of effort and professionalism displayed by District staff in fulfilling these data requests.

## **Customers and Meters – Current Year and Forecast**

According to standard utility ratemaking methodology, in order to allocate revenue requirements equitably among system users, customers must be classified into relatively homogeneous groups with similar usage characteristics or service demands. Costs are then allocated to the customer classes in proportion to each class' usage characteristics.

As stated in Section I of this report, the District defines customer classes by meter size, beginning with 5/8" and including 1", 2", 4" and 6" meters. **Table III-1** presents the forecast average number of water and wastewater customers for each class for the test year, which encompasses the period October 2014 through September 2015. The chart reveals that in the test year there are **6,138** water customers and **5,408** wastewater active accounts.

Table III-1



WATER	AND WASTEWATE	WATER DISTRICT ER CUSTOMER ACCO EAR 2015	DUNTS
WAVERVA	igourits (1)	WASTEWATE	R/Accounts:
5/8" Meter	4,642	5/8" Meter	4,273
1" Meter	1,090	1" Meter	808
2" Meter	293	2" Meter	220
4" Meter	79	4" Meter	74
6" Meter	33	6" Meter	32
8" Meter	1	8" Meter	1
Total	6,138	Total	5,408

**Table II-2** presents historical customer accounts for 2000, 2005 and annually for 2011 through 2015. The chart shows that account growth was robust during the period 2000-2010, but has been significantly weaker since 2011.

Table III-2

		ADRE WATER DI AL TOTAL ACCO		
	Wate	er	Wastew	ater
	Total	New	Total	New
2000	3,728		3,605	
2005	5,201	1,473	4,872	1,267
2011	6,237	1,036	5,385	513
2012	5,980	(25 <del>7</del> )	5,354	(32)
2013	6,002	22	5,362	8
Aug13-Jul14	6,058	56	5,374	12
Test Year 2015	6,138	80	5,408	34



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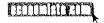
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Table III-3 presents the project team's ten-year forecast of future water connections by defined customer class, while Table III-4 presents the ten-year forecast of future wastewater connections. The tables reveal that the project team is forecasting a modest growth rate of approximately 40 new accounts per year. The totals are the same for water and wastewater because of the expectation that all future accounts will have both water and wastewater service. The tables further show that water accounts are forecast to reach a total of 6,498 by FY 2024 or an annual growth rate of 0.71%. Wastewater accounts are forecast to reach a total of 5,768 by FY 2025, or an annual growth rate of 0.67%. The addition of these new connections will result in both non-recurring connection fees and increasing monthly water revenues.

Should these new water and wastewater connections not be realized, or be connected at a slower pace than that outlined in this forecast, revisions may be required to the project team's financial and rate recommendations.

Table III-3

LAGUNA MADRE WATER DISTRICT FORECAST TOTAL ACCOUNTS WATER Customer Classes											
	5/8" Meter	1" Meter	2" Meter	4" Meter	6" Meter	8" Meter	Total				
!	WATER FOR ANY	counts					1				
2011	4.623	1.039	472	72	30	-	6,237				
2012	4.583	1,062	231	74	30	0	5,980				
2013	4,595	1,071	231	75	30	1	6,002				
Aug13-Jul14	4,618	1,055	278	75	31	1	6,058				
2015	4,617	1,085	288	76	31	1	6,098				
2016	4,667	1,095	298	82	35	1	6,178				
2017	4,692	1,100	303	85	37	1	6,218				
2018	4,717	1,105	308	88	39	1	6,258				
2019	4,742	1,110	313	91	41	1	6,298				
2020	4,767	1,115	318	94	43	1	6,338				
2021	4,792	1,120	323	97	45	1	6,378				
2022	4,817	1,125	328	100	47	1	6.418				
2023	4.842	1,130	333	103	49	1	6.458				
2024	4,867	1,135	338	106	51	1	6,498				
	Wester/Amuain	NE)//Atvisoumes			1. 1						
2012	(40)	22	(241)	2	<u>.</u>	0	(257)				
2013	12	9	(0)	1	-	1	22				
Aug13-Jul14	23	(15)	47	0	1	-	56				
2015	25	5	5	3	2	-	40				
2016	25	5	5	3	2	-	40				
2017	25	5	5	3	2	-	40				
2018	25	5	5	3	2	-	40				
2019	25	5	5	3	2	-	40				
2020	25	5	5	3	2	-	40				
2021	25	5	5	3	2	-	40				
2022	25	5	5	3	2	-	40				
2023	25	5	5	3	2	_	40				
2024	25	5	5	3	2		40				

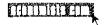


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Table III-4

		FOR	LAGUNA MADRE WATER DISTRICT FORECAST TOTAL ACCOUNTS WASTEWATER Customer Classes				
*****	5/8" Meter	1" Meter	2" Meter	4" Meter	6" Meter	8" Meter	Total
	WASTEWATER	Total Accounts					
2011	4,295	779	212	69	30	-	5,385
2012	4,246	792	214	71	30	0	5,354
2013	4,248	797	214	72	30	1	5,362
Aug13-Jul14	4,260	798	214	71	30	1	5,374
2015	4,298	808	220	74	32	1	5,433
2016	4,298	813	225	77	34	1	5,448
2017	4,323	818	230	80	36	1	5,488
2018	4,348	823	235	83	38	1	5,528
2019	4,373	828	240	86	40	1	5,568
2020	4,398	833	245	89	42	1	5,608
2021	4,423	838	250	92	44	. 1	5,648
2022	4,448	843	255	95	46	1	5,688
2023	4,473	848	260	98	48	1	5,728
2024	4,498	853	265	101	50	1	5,768
	WASTEWATER A	Annual New Acc	ounts				
2012	(49)	13	2	2	-	٥	(32)
2013	2	5	(0)	1	-	1	8
Aug13-Jul14	12	1	0	(1)	•	•	12
2015	25	5	5	3	2	•	40
2016	25	5	5	3	2	-	40
2017	25	5	5	3	2	-	40
2018	25	5	5	3	2	-	40
2019	25	5	5	3	2	-	40
2020	25	5	5	3	2	-	40
2021	25	5	5	3	2	-	40
2022	25	5	5	3 3	2	-	40
2023	25	5	5	3	2	-	40
2024	25	5	5	3	2	_	40



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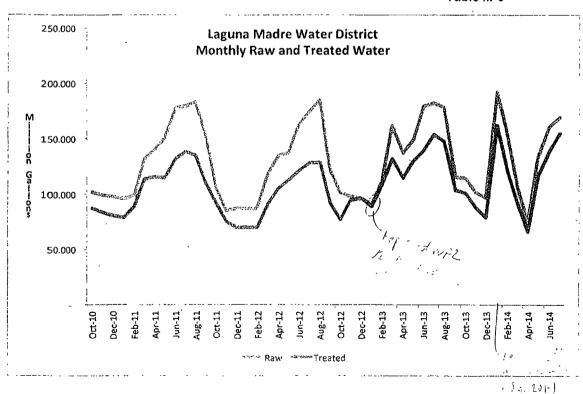
## **Raw and Treated Water Production**

**Table III-5** and **Chart III-6** presents the District's historical water usage over the past decade. The District's treated water production has nominally increased during the period 2011-2014. Raw water production is larger due to a combination of raw water usage by large irrigation customers and transportation and production losses.

Table III-5

LAGUNA MADRE WATER DISTRICT RAW AND TREATED WATER PRODUCTION				
Raw Water		Treated Water		
Production		Production		
FY 2011	1,612,718,000	1,281,794,000		
FY 2012	1,489,526,000	1,155,579,000		
FY 2013	1,605,218,000	1,386,532,000		
Last 12 Mths	1,602,374,000	1,371,922,000		

Table III-6



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