

LAGUNA MADRE WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015**

(This page intentionally left blank)

LAGUNA MADRE WATER DISTRICT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

TABLE OF CONTENTS

INTRODUCTORY SECTION

Organizational Chart.....1
Annual Filing Affidavit.....2

FINANCIAL SECTION

Independent Auditor’s Report..... 3-5
Management’s Discussion and Analysis 6-17

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet18
Statement of Activities and Governmental Funds Revenues,
Expenditures, and Changes in Fund Balance.....19
Notes to the Basic Financial Statements 20-51

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
General Fund - Budget and Actual52
Schedule of Changes in the Employer’s Net Pension Liability
and Related Ratios53
Schedule of Employer Contributions.....54

SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Debt Service Fund - Budget and Actual55

LAGUNA MADRE WATER DISTRICT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
 SEPTEMBER 30, 2015

TABLE OF CONTENTS – Continued

TEXAS SUPPLEMENTARY INFORMATION (TSI) SECTION

Notes required by the Water District Accounting Manual	56
TSI – 1. Services and Rates	57-58
TSI – 2. General Fund Expenditures.....	59
TSI – 3. Temporary Investments	60
TSI – 4. Taxes Levied and Receivable	61
TSI – 5. Long-Term Debt Service Requirements by Years.....	62-64
TSI – 6. Changes in Long-Term Bonded Debt.....	65
TSI – 7. Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years	66-67
TSI – 8. Board Members, Key Personnel and Consultants.....	68-70

OTHER INFORMATION

Top Ten Taxpayers	71
Top Ten Rate Payers.....	72

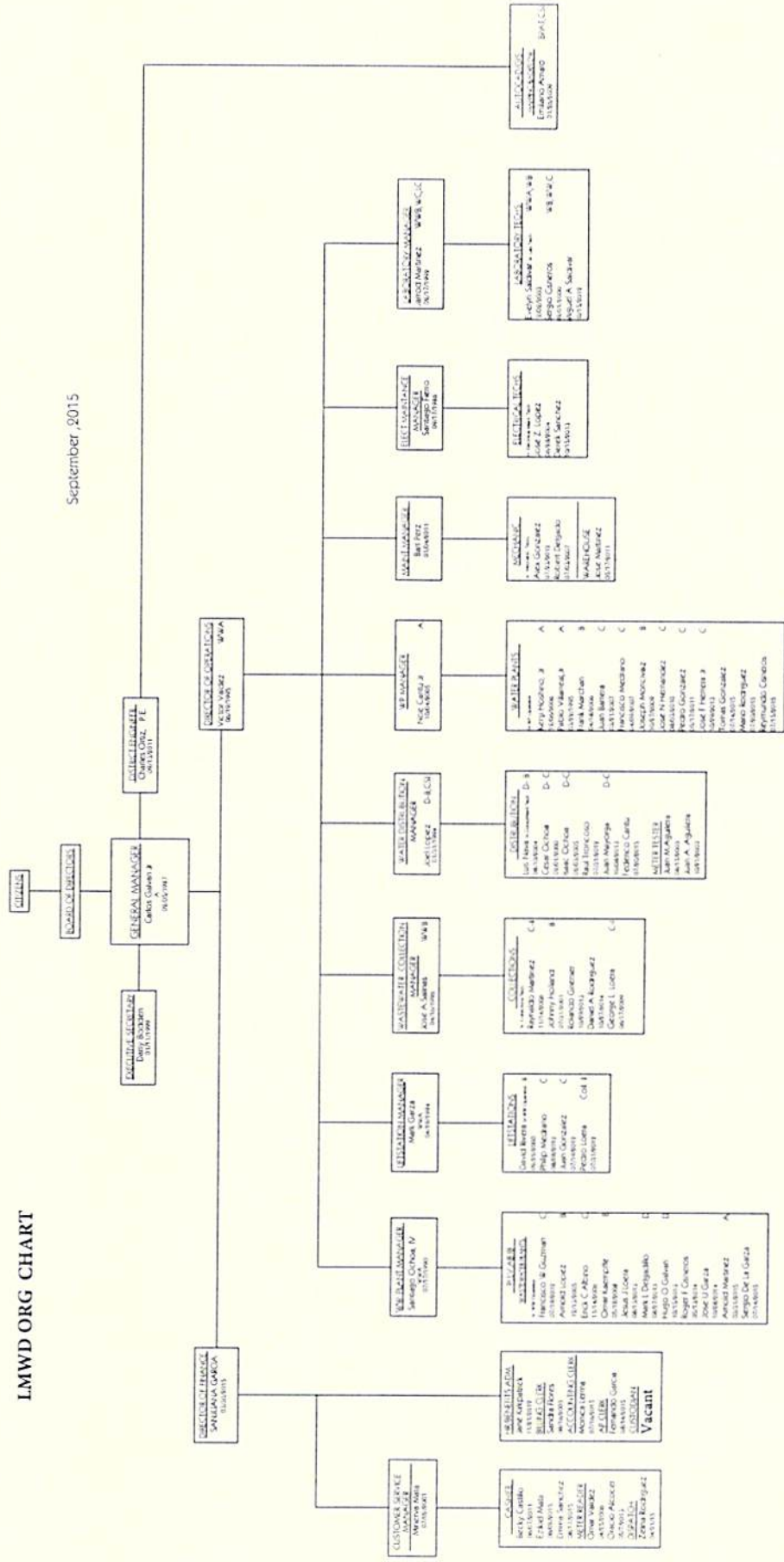
COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing</i> <i>Standards</i>	73-74
---	-------

INTRODUCTORY SECTION

LMWD ORG CHART

September, 2015



ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF CAMERON

I, _____ of the
(Name of Duty Authorized District Representative)

_____ hereby
(Name of District)

Swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the ____ day of _____, 2015, its annual audit report for the Twelve Month Period ended _____

and that copies of the annual audit report have been filed in the district office, located at

(Address of District)

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

Date: _____, 2015 By: _____

(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this ____ day of _____, 2015.

(Signature of Notary)

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

(This page intentionally left blank)

FINANCIAL SECTION

(This page intentionally left blank)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Laguna Madre Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Laguna Madre Water District ("District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2015, and the respective change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, *Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the employer's net pension liability and related ratios, and schedule of employer contributions on pages 6-17 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
December 21, 2015

(This page intentionally left blank)

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Laguna Madre Water District's (District) annual financial report presents management's discussion and analysis (MD&A) of the District's financial performance for the fiscal year ended September 30, 2015. The MD&A should be read in conjunction with the District's financial statements which follow this section.

Financial Highlights

- In the Government-Wide Statement of Net Position, the total assets and deferred outflows of the District exceeded its liabilities for the fiscal year ended September 30, 2015, by \$66,646,545. Of this amount \$7,146,538 (considered unrestricted) may be used to meet the District's ongoing obligations to citizens and creditors. The net investment in capital assets of the District is \$57,274,656.
- The restricted portion of the Government-Wide net position includes the debt service payment amounts of \$2,225,351 due fiscal year 2015-16.
- The fund balance in the General Fund increased by \$283,906. The ending fund balance for the fiscal year ended September 30, 2015, was \$5,771,327. The combined General Fund and Emergency fund balances are \$7,778,435.
- For the fiscal year ended September 30, 2015, the District's fund balances reported a combined ending fund balance of \$16,572,395.

Overview of the Financial Statements

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

The basic financial statements are comprised of three components:

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

- The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).
- Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

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

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

Additional Information Regarding the District's Fund Financial Statements:

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

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

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

The Districts basic financial statements can be found on pages 18-19.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-51 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's general fund budgetary schedule, changes in net pension liability, as well as the employer contributions schedule. Required supplementary information can be found on pages 52-54 of this report

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

The District also provides supplementary information concerning the District's debt service fund budgetary schedule, Texas Supplementary Information schedules as required by the Texas Commission on Environmental Quality, and other information deemed appropriate. The supplementary information the TSI, and other information can be found on pages 55-72 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, 2015, total assets and deferred outflows exceeded liabilities by \$66,646,545. By far, the largest portion of the District's net position (85.9%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide services to its citizens and therefore these assets are not available for future spending. Although the District's investment in these capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$2,225,531 (3.3%), represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net position, totaling \$7,146,538, 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,

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 17,477,691	\$ 19,332,317
Capital Assets	71,621,696	71,583,310
Total assets	<u>89,099,387</u>	<u>90,915,627</u>
 Total deferred outflows of resources	 628,469	 273,167
 Long-term liabilities outstanding	 21,081,566	 22,760,336
Other liabilities	1,999,745	1,776,183
Total liabilities	<u>23,081,311</u>	<u>24,536,519</u>
 Net position:		
Net investment in capital assets	57,274,656	57,671,298
Restricted	2,225,351	2,603,311
Unrestricted	7,146,538	6,377,666
Total net position	<u>\$ 66,646,545</u>	<u>\$ 66,652,275</u>

Governmental Activities

During the current fiscal year, net position for governmental activities decreased by \$951,047. The majority of the decrease is attributed to a prior period adjustment of \$945,317 that was necessary due to the implementation of *Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. See note 15 on page 51 for more details about this prior period adjustment. As indicated in Exhibit 2 charges for services comprised 81.3% and property taxes comprised 18.4% of all revenues. Service operations comprised 66.9% of all expenses; interest on long-term debt, 8.6%; and depreciation expense, 24.5%.

(This space intentionally left blank)

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

	2015	2014
Revenues:		
Program Revenues:		
Charges for services	\$ 7,660,039	\$ 7,396,092
Intergovernmental	110,000	-
General Revenues:		
Property taxes	1,330,662	2,794,940
Investment earnings	18,778	32,024
Other	295,266	-
Total Revenue	9,414,745	10,223,056
Expenses:		
Service operations	6,310,211	6,776,720
Interest on long-term debt and fiscal expense	809,455	776,238
Depreciation expense	2,305,309	1,935,896
Total Expenses	9,424,975	9,488,854
Other Income/Expenses:		
Gain/Loss on sale of assets	4,500	-
Increase in net position	(5,730)	734,202
Net Position, Beginning	66,652,275	67,251,800
Prior Period Adjustment	-	(1,333,727)
Net Position, Ending Restated	\$ 66,646,545	\$ 66,652,275

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, 2015 The District's governmental funds reported combined ending fund balances of \$16,572,395, a decrease of \$1,921,446 in comparison with the prior year. Approximately 20.9% of this amount (\$3,469,216) 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 (\$1,017,867), 2) restricted for particular purposes (\$8,443,099), 3) committed for particular purposes (\$3,291,352), 4) assigned for particular purposes (\$350,861).

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 \$3,469,216, while total fund balance increased to \$5,771,327. The fund balance of the District's general fund increased by \$283,906 primarily due to an increase in water service rates charged to customers.

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

Exhibit 3
Fund Balances of the General Fund

Fiscal Year	Revenues	Expenditures Plus Transfers Out	Fund Balance	Percentage of Fund Balance In Relation to Revenues	Percentage of Fund Balance In Relation to Expenditures Plus Transfer Out
April					
2001	\$ 5,661,009	\$ 5,554,826	\$ 3,075,602	54.3%	55.4%
2002	5,858,550	6,372,630	2,561,522	43.7%	40.2%
2003	6,232,970	6,210,270	2,584,222	41.5%	41.6%
2004	6,240,554	6,266,369	2,558,407	41.0%	40.8%
2005	6,791,022	6,072,322	2,913,154	42.9%	48.0%
2006	7,550,428	6,965,871	3,861,663	51.1%	55.4%
2007	7,835,052	7,301,697	4,667,549	59.6%	63.9%
2008	8,237,727	6,632,006	6,273,270	76.2%	94.6%
2009	7,174,800	8,474,029	5,239,329	73.0%	61.8%
2010	7,443,217	7,387,754	4,511,569	60.6%	61.0%
2011	8,100,426	7,466,198	5,087,406	62.8%	68.1%
2012	8,268,463	7,151,218	6,284,270	76.0%	87.9%
2013	8,738,728	10,335,855	4,697,639	53.8%	45.4%
September					
2013*	3,813,789	3,137,960	5,373,468	140.9%	171.2%
2014	7,459,276	7,345,323	5,487,421	73.5%	74.7%
2015	8,022,892	7,743,486	5,771,327	71.9%	74.5%

*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,

	<u>2015</u>	<u>2014</u>
REVENUES		
Water Services	\$ 4,596,999	\$ 4,331,211
Wastewater Services	3,063,040	2,828,501
Penalties & Interest	63,063	57,194
Tap Fees	167,919	111,151
Investment Earnings	5,195	5,990
Miscellaneous	126,676	125,229
TOTAL REVENUES	<u>8,022,892</u>	<u>7,459,276</u>
EXPENDITURES		
Service Operation	6,292,677	6,171,742
Capital Outlay	367,244	508,905
TOTAL EXPENDITURES	<u>6,659,921</u>	<u>6,680,647</u>
Excess (Deficiency) of Revenues Over (under) Expenditures	1,362,971	778,629
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	4,500	-
Transfer to Other Funds	(1,083,565)	(664,676)
Total Other Financing Sources	<u>(1,079,065)</u>	<u>(664,676)</u>
Net Change in Fund Balances	283,906	113,953
Fund Balance Beginning,	<u>5,487,421</u>	<u>5,373,468</u>
Fund Balance Ending	<u>\$ 5,771,327</u>	<u>\$ 5,487,421</u>

(This space intentionally left blank)

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,

	<u>2015</u>	<u>2014</u>
REVENUES		
Property taxes and penalties/interest	\$ 1,400,283	\$ 2,730,206
Investment Earnings	3,663	7,063
Miscellaneous	<u>671</u>	<u>-</u>
TOTAL REVENUES	<u>1,404,617</u>	<u>2,737,269</u>
EXPENDITURES		
Bond principal	1,660,000	2,330,000
Bond interest and fiscal agent fees	728,909	979,642
Bond issuance costs	140,385	-
Advance refunding escrow agent	117,701	-
Contracted services	<u>62,178</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,709,173</u>	<u>3,309,642</u>
Excess (Deficiency) of Revenues Over (under) Expenditures	(1,304,556)	(572,373)
OTHER FINANCING SOURCES (USES)		
Refunding bonds issued	6,345,000	-
Payment to refunded bond escrow agent	(6,211,115)	-
Transfer from Other Funds	<u>664,583</u>	<u>664,676</u>
Total Other Financing Sources	<u>798,468</u>	<u>664,676</u>
Net Change in Fund Balances	(506,088)	92,303
Fund Balance Beginning,	<u>3,252,868</u>	<u>3,160,565</u>
Fund Balance Ending	<u>\$ 2,746,780</u>	<u>\$ 3,252,868</u>

As shown in Exhibit 5 above, the debt service fund for the fiscal year ended September 30, 2015, had a fund balance of \$2,746,780; this amount represented a decrease of \$506,088. The total debt service fund balance is restricted for payment of debt service. The District's ad valorem tax rate during fiscal year 2015 was \$0.039260 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,

	<u>2015</u>	<u>2014</u>
REVENUES		
Intergovernmental	\$ 110,000	\$ -
Investment Earnings	7,715	16,374
TOTAL REVENUES	<u>117,715</u>	<u>16,374</u>
EXPENDITURES		
Capital Outlay	2,238,166	6,068,445
TOTAL EXPENDITURES	<u>2,238,166</u>	<u>6,068,445</u>
Excess (Deficiency) of Revenues Over (under) Expenditures	(2,120,451)	(6,052,071)
OTHER FINANCING SOURCES (USES)		
Transfer from Other Funds	418,982	-
Total Other Financing Sources	<u>418,982</u>	<u>-</u>
Net Change in Fund Balances	(1,701,469)	(6,052,071)
Fund Balance Beginning,	<u>7,748,649</u>	<u>13,800,720</u>
Fund Balance Ending	<u>\$ 6,047,180</u>	<u>\$ 7,748,649</u>

General Fund Budgetary Highlights

For the fiscal year ended September 30, 2015, the District passed its General Fund expenditure budget of \$7,999,187. Amendments to the budget consisted of an overall decrease in appropriations of \$43,433 due to a decrease in anticipated revenues.

Differences between the original budget and the final amended budget are shown on page 52.

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, 2015, amounts to \$71,621,696. The net increase in capital assets for the fiscal year ended September 30, 2015 was \$38,386.

Major Projects ---General Fund

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

Major Projects---Capital Projects Fund

- Microfiltration project at Water Plant #2 at Laguna Vista is completed at accumulative cost of \$6,770,223.
- Cuates Pump Station in Los Fresnos is complete with accumulative cost of \$6,097,047.
- Laguna Vista Wastewater Plant Reuse Project is complete with accumulative cost of \$1,062,013.
- On Lift Station #19 is complete at accumulative cost of \$985,983.
- Seawater Ro Permit is complete with accumulative cost of \$ 127,459.
- Laguna Vista Sewer is complete with accumulative cost of \$612,377.
- Gate Valves is complete with accumulative cost of \$200,667.

The depreciation expense for the year ended September 30, 2015 for the governmental activities totaled \$2,305,309.

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

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Land	\$ 1,302,714	\$ 1,251,714
Construction in progress	1,578,077	16,147,002
Buildings and improvements	3,568,582	1,275,588
Improvements other than buildings	8,524,809	154,699
Machinery and equipment	528,342	610,451
Infrastructure	56,119,172	52,143,856
Total	<u>\$ 71,621,696</u>	<u>\$ 71,583,310</u>

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

Long-Term Debt

At September 30, 2015, the District's total bonded debt was \$20,535,000. Of this amount, \$14,255,000 is considered to be tax supported debt and \$6,280,000 are considered revenue notes.

Exhibit 8 shows the District's outstanding long-term debt as of September 30, 2015.

Additional information on the District's long-term debt can be found in Note 7 on pages 37-40 of this report.

Exhibit 8 Laguna Madre Water District Long Term Liabilities

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
General Obligation bonds	\$ 14,255,000	\$ 15,465,000
Revenue bonds	6,280,000	6,455,000
Plus: Unamortized Premium	282,938	362,275
Total Bonds Payable	<u>20,817,938</u>	<u>22,282,275</u>
Compensated absences	62,319	299,578
Net pension liability	1,311,309	1,218,483
Total other long-term liabilities	<u>1,373,628</u>	<u>1,518,061</u>
	<u>\$ 22,191,566</u>	<u>\$ 23,800,336</u>

Bond Ratings

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

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation Bonds	Aa2	A+
Revenue Bonds	Aa3	A

Request for Information

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

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

Laguna Madre Water District
Sanjuana Garcia, Finance Director
105 Port Road
Port Isabel, Texas 78578

Phone Number: (956)943-2626
Fax Number: (956)943-6662
E-mail: sgarcia@lmwd.org
Web Page: lmwd.org

BASIC FINANCIAL STATEMENTS

LAGUNA MADRE WATER DISTRICT
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2015

	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
ASSETS							
Cash and cash equivalents	\$ 2,941,741	\$ -	\$ -	\$ 350,861	\$ 3,292,602	\$ -	\$ 3,292,602
Investments	504,445	-	-	-	504,445	-	504,445
Receivables, (net)	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Taxes	-	-	150,587	-	150,587	-	150,587
Accounts	616,974	-	-	-	616,974	-	616,974
Intergovernmental	-	-	-	6,769	6,769	-	6,769
Miscellaneous	36,417	-	-	-	36,417	-	36,417
Internal receivables	36,280	-	-	-	36,280	(36,280)	-
Inventories	480,286	-	-	-	480,286	-	480,286
Prepaid items	87,973	-	-	-	87,973	-	87,973
Restricted assets:							
Cash and cash equivalents	1,603,091	2,007,108	2,267,694	5,905,052	11,782,945	-	11,782,945
Cash with fiscal agent	-	-	-	-	-	-	-
Investments	-	-	454,000	-	454,000	-	454,000
Capital assets not being depreciated:							
Land	-	-	-	-	-	1,302,714	1,302,714
Construction in progress	-	-	-	-	-	1,578,077	1,578,077
Capital assets net of accumulated depreciation:							
Buildings and improvements	-	-	-	-	-	3,568,582	3,568,582
Improvements other than buildings	-	-	-	-	-	8,524,809	8,524,809
Personal property	-	-	-	-	-	528,342	528,342
Infrastructure	-	-	-	-	-	56,119,172	56,119,172
Bond insurance	-	-	-	-	-	64,693	64,693
Total Assets	6,307,207	2,007,108	2,872,281	6,262,682	17,449,278	71,650,109	89,099,387
Deferred Outflows of Resources							
Deferred charge on refunding	-	-	-	-	-	188,293	188,293
Deferred outflows related to pension	-	-	-	-	-	440,176	440,176
Total Deferred Outflows of Resources	-	-	-	-	-	628,469	628,469
LIABILITIES							
Accounts payable	61,874	-	-	60,925	122,799	-	122,799
Accrued payroll	80,463	-	-	-	80,463	-	80,463
Accrued interest	-	-	-	-	-	174,543	174,543
Internal payables	-	-	100	36,180	36,280	(36,280)	-
Liabilities payable from restricted assets	393,543	-	-	118,397.00	511,940	-	511,940
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,110,000	1,110,000
Due in more than one year	-	-	-	-	-	19,770,257	19,770,257
Net pension liability	-	-	-	-	-	1,311,309	1,311,309
Total Liabilities	535,880	-	100	215,502	751,482	22,329,829	23,081,311
Deferred Inflows of Resources							
Unavailable tax revenue	-	-	125,401	-	125,401	(125,401)	-
FUND BALANCE/NET POSITION							
Fund balances:							
Non-spendable:							
Prepaid items	87,973	-	-	-	87,973	(87,973)	-
Inventories	480,286	-	-	-	480,286	(480,286)	-
Meter deposits	449,608	-	-	-	449,608	(449,608)	-
Restricted:							
Debt service	-	-	2,746,780	-	2,746,780	(2,746,780)	-
Capital projects	-	-	-	5,696,319	5,696,319	(5,696,319)	-
Committed:							
Capital projects	1,227,355	-	-	-	1,227,355	(1,227,355)	-
Annexation	32,800	-	-	-	32,800	(32,800)	-
Sale of land	24,089	-	-	-	24,089	(24,089)	-
Emergency reserve	-	2,007,108	-	-	2,007,108	(2,007,108)	-
Assigned:							
Capital projects	-	-	-	350,861	350,861	(350,861)	-
Unassigned	3,469,216	-	-	-	3,469,216	(3,469,216)	-
Total fund balances	5,771,327	2,007,108	2,746,780	6,047,180	16,572,395	(16,572,395)	-
Total liabilities and fund balances	\$ 6,307,207	\$ 2,007,108	\$ 2,872,281	\$ 6,262,682	\$ 17,449,278	\$ 5,757,434	\$ 23,081,311
Net Position (Government-wide):							
Net investment in capital assets						57,274,656	57,274,656
Restricted for:							
Debt service						2,225,351	2,225,351
Other purposes						-	-
Unrestricted						7,146,538	7,146,538
Total net position						\$ 66,646,545	\$ 66,646,545

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

LAGUNA MADRE WATER DISTRICT
Statement of Activities and Governmental Funds
Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2015

	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Activities
Revenues:							
Water services	4,596,999	\$ -	\$ -	\$ -	\$ 4,596,999	\$ -	\$ 4,596,999
Wastewater services	3,063,040	-	-	-	3,063,040	-	3,063,040
Property taxes	-	-	1,348,644	-	1,348,644	(132,684)	1,215,960
Penalties and interest	63,063	-	51,639	-	114,702	-	114,702
Intergovernmental	-	-	-	110,000	110,000	-	110,000
Tap fees	167,919	-	-	-	167,919	-	167,919
Investment earnings	5,195	2,205	3,663	7,715	18,778	-	18,778
Miscellaneous	126,676	-	671	-	127,347	-	127,347
Total revenues	8,022,892	2,205	1,404,617	117,715	9,547,429	(132,684)	9,414,745
Expenditures:							
Service operations:							
Professional fees	346,321	-	-	-	346,321	-	346,321
Payroll and benefits	3,668,463	-	-	-	3,668,463	(589,823)	3,078,640
Net pension expense	-	-	-	-	-	278,380	278,380
Utilities	804,031	-	-	-	804,031	-	804,031
Materials and supplies	986,917	-	-	-	986,917	-	986,917
Repairs and maintenance	280,086	-	-	-	280,086	-	280,086
Other	206,859	-	1,679	173,071	381,609	3,405	385,014
Capital outlay	367,244	-	-	2,065,095	2,432,339	(2,343,695)	88,644
Debt service:							
Principal	-	-	1,660,000	-	1,660,000	(1,660,000)	-
Interest and fiscal charges	-	-	727,230	-	727,230	(58,160)	669,070
Bond issuance costs	-	-	140,385	-	140,385	-	140,385
Advance refunding escrow	-	-	117,701	-	117,701	(117,701)	-
Contracted service	-	-	62,178	-	62,178	-	62,178
Depreciation	-	-	-	-	-	2,305,309	2,305,309
Total expenditures	6,659,921	-	2,709,173	2,238,166	11,607,260	(2,182,285)	9,424,975
Excess (deficiency) of revenues over expenditures	1,362,971	2,205	(1,304,556)	(2,120,451)	(2,059,831)	1,975,417	(10,230)
Other financing sources/(uses):							
Refunding bonds issues	-	-	6,345,000	-	6,345,000	(6,345,000)	-
Payment to refunded bond escrow agent	-	-	(6,211,115)	-	(6,211,115)	6,211,115	-
Premium on bonds issued	-	-	-	-	-	-	-
Proceeds from insurance	-	-	-	-	-	-	-
Gain or loss on sale of assets	4,500	-	-	-	4,500	-	4,500
Transfers In	-	-	664,583	418,982	1,083,565	(1,083,565)	-
Transfers Out	(1,083,565)	-	-	-	(1,083,565)	1,083,565	-
Net other financing sources/(uses)	(1,079,065)	-	798,468	418,982	138,385	(133,885)	4,500
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	283,906	2,205	(506,088)	(1,701,469)	(1,921,446)	1,921,446	(5,730)
Change in net position						(5,730)	(5,730)
Fund balance/net position:							
Beginning of the year	5,487,421	2,004,903	3,252,868	7,748,649	18,493,841	49,103,751	67,597,592
Prior Period Adjustment	-	-	-	-	-	(945,317)	(945,317)
Beginning of the year-as restated	5,487,421	2,004,903	3,252,868	7,748,649	18,493,841	48,158,434	66,652,275
End of the year	<u>\$ 5,771,327</u>	<u>\$ 2,007,108</u>	<u>\$ 2,746,780</u>	<u>\$ 6,047,180</u>	<u>\$ 16,572,395</u>	<u>\$ 50,074,150</u>	<u>\$ 66,646,545</u>

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Basis of Presentation - Government-wide and Fund Financial Statements

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - Government-wide and Fund Financial Statements – Continued

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. Also, the asset replacement fund is reported within the general fund and accounts for the replacement of the district's assets.
- The *emergency preparation and recovery fund* is used for preparing for and recovering from man-made or natural disasters or emergencies.
- The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.
- The *capital projects fund* accounts for the acquisition or construction of the District's major capital facilities.

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

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgets

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

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

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

Cash and Cash Equivalents

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

Investments

Statutes authorize the District to invest in obligations of the United States or its agencies and instrumentalities, direct obligations of the State of Texas or its agencies, obligations of states, agencies, counties, cities and other political subdivisions of any state rated not less than A or its equivalent.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories and prepaid items

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

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

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.

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

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

Depreciation expense for the fiscal year was \$2,305,309.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category. A deferred outflow related to 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 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, differences between projected and actual investments earnings, and employer contributions made subsequent to the measurement date through the District's year end. Differences in plan experience will be amortized over the remaining service lives of current and former employees, and retirees. The difference between expected and actual investment earnings will be amortized over a five-year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. This amount is recognized as an inflow of resources in the period that the amount becomes available.

Net Position Flow Assumption

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

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Assets

Debt Service Fund

Certain proceeds of revenue 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. Reserve accounts for the bonds are used to report resources set aside to subsidize potential deficiencies from the fund's operation that could adversely affect debt service payments on the 2012 tax bond and the 2015 revenue bond issuances. Interest and Sinking accounts are used to segregate resources accumulated for debt service payments over the next twelve months for the 2012 tax bonds, and the 2015 revenue bonds.

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

Cash	\$	2,267,694
Investments		454,000
		\$ 2,721,694
		\$ 2,721,694

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

Cash	\$	5,905,052
		\$ 5,905,052
		\$ 5,905,052

Property Taxes

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

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

As of the fiscal year end, the District had \$62,319 of accumulated vacation leave which is recognized as a long-term liability.

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.

Deferred Compensation Plan

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

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Current Year GASB Statement Implementation

In the current year the District implemented *GASB Statement No. 68, Accounting and Financial Reporting for Pensions* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*, which establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions.

Date of Management Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 21, 2015, the date the financial statements were available to be issued.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statements of net position. 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 \$71,621,696 are as follows:

Land	\$	1,302,714
Construction in progress		1,578,077
Buildings and improvements, net		3,568,582
Improvements other than buildings, net		8,524,809
Personal property with UAC >\$5,000, net		528,342
Infrastructure, net		56,119,172
		<hr/>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	71,621,696
		<hr/> <hr/>

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – 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 \$21,672,948 difference are as follows:

General obligation bonds payable	\$	14,255,000
Revenue bonds payable		6,280,000
Deferred charge on refunding (to be amortized as interest expense)		(188,293)
Bond insurance(to be amortized over life of debt)		(64,693)
Issuance premiums (to be amortized as interest expense)		282,938
Accrued interest payable		174,543
Compensated absences		62,319
Net pension liability		1,311,310
Deferred outflows related to pensions (to be amortized as net pension expense)		(440,176)

Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$	21,672,948

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

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

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 \$38,980 difference are as follows:

Capital outlay	\$	2,343,699
Depreciation expense		<u>(2,305,309)</u>
Net adjustment to increase <i>changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$	<u>38,390</u>

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – CONTINUED

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount \$(1,643,816), is the net effect of these differences in the treatment of long-term debt and related items.” The details of the (\$1,643,816) difference are as follows:

Debt issued or incurred:	
Revenue bond	\$ 6,345,000
Principal repayments:	
General obligation bonds	(1,210,000)
Revenue bonds	(450,000)
Payment to escrow agent for refunding	<u>(6,328,816)</u>
Net adjustment to decrease <i>changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (1,643,816)</u>

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – 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 \$601,644 difference are as follows:

Compensated absences	\$ 237,259
Accrued interest	49,347
Net pension expense	278,381
Amortization of deferred outflows related to net pension liability	42,065
Amortization of deferred charge on refunding	7,831
Amortization of bond premiums	(16,644)
Amortization of bond insurance	<u>3,405</u>
Net adjustment to decrease <i>changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 601,644</u>

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 appropriate budgets are shown in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 3 – LEGAL COMPLIANCE – (Continued)

Budget – Continued

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2015 are classified in the accompanying financial statements as follows:

Unrestricted - cash and investments	\$ 3,446,186
Restricted assets - cash and investments	<u>12,587,806</u>
Total	<u>\$ 16,033,992</u>

Deposits and investments as of September 30, 2015 consist of the following:

Deposits with financial institutions	<u>\$ 16,033,992</u>
Total	<u>\$ 16,033,992</u>

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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

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

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

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

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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. All deposits are entirely insured or collateralized. State law requires banks to secure the District’s deposits by pledging governmental securities valued at 110% of the amount of the deposit as collateral. As of September 30, 2015, the District’s market value of pledged securities was \$18,569,217 and the bank deposits were \$16,033,992. The bank balances as of September 30, 2015 were fully insured by FDIC coverage and collateral pledged by financial institution.

NOTE 5 – RECEIVABLES

Receivables at September 30, 2015 including the applicable allowance for uncollectible accounts are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Taxes	\$ -	\$ 158,513	\$ -	\$ 158,513
Accounts	625,339	-	-	625,339
Intergovernmental		-	6,769	6,769
Miscellaneous	36,417		-	36,417
Gross receivables	<u>661,756</u>	<u>158,513</u>	<u>6,769</u>	<u>827,038</u>
Less: Allowance for uncollectible	<u>(8,365)</u>	<u>(7,926)</u>	<u>-</u>	<u>(16,291)</u>
Net total receivables	<u>\$ 653,391</u>	<u>\$ 150,587</u>	<u>\$ 6,769</u>	<u>\$ 810,747</u>

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2015 was as follows:

	Balance 9/30/14	Additions	Retirements	Reclassifications	Balance 9/30/15
Governmental Activities:					
<i>Capital assets, not depreciated:</i>					
Land and easements	\$ 1,251,714	\$ -	\$ -	\$ 51,000	\$ 1,302,714
Construction in progress	16,147,001	1,264,293	-	(15,833,217)	1,578,077
Total capital assets, not depreciated	<u>17,398,715</u>	<u>1,264,293</u>	<u>-</u>	<u>(15,782,217)</u>	<u>2,880,791</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	2,013,029	25,543	-	2,383,928	4,422,500
Improvements other than buildings	410,753	332,492	-	8,250,377	8,993,622
Personal property, UAC = > \$5,000	2,076,379	28,408	(142,089)	-	1,962,698
Infrastructure	89,896,618	692,963	-	5,147,912	95,737,493
Total capital assets, depreciated	<u>94,396,779</u>	<u>1,079,406</u>	<u>(142,089)</u>	<u>15,782,217</u>	<u>111,116,313</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(737,443)	(116,476)	-	-	(853,919)
Improvements other than buildings	(256,054)	(212,759)	-	-	(468,813)
Personal property, UAC = > \$5,000	(1,465,927)	(110,517)	142,089	-	(1,434,355)
Infrastructure	(37,752,764)	(1,865,557)	-	-	(39,618,321)
Total accumulated depreciation	<u>(40,212,188)</u>	<u>(2,305,309)</u>	<u>142,089</u>	<u>-</u>	<u>(42,375,408)</u>
Total capital assets, being depreciated, net	<u>54,184,591</u>	<u>(1,225,903)</u>	<u>-</u>	<u>15,782,217</u>	<u>68,740,905</u>
Governmental activities capital assets, net	<u>\$ 71,583,306</u>	<u>\$ 38,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,621,696</u>

NOTE 7 – LONG-TERM DEBT

General Obligation Bonds

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 7 – LONG-TERM DEBT – CONTINUED

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

Revenue Bonds

Revenue bonds are not backed by the full faith and credit of the District. Revenue bonds are guaranteed for repayment solely from revenues generated by water and wastewater sales. These bonds generally are issued to mature in 20 – 30 years also as serial bonds. The District currently has one revenue bond issue outstanding.

On March 8, 2007, the District issued \$9,815,000 Waterworks and Sewer System Revenue Notes, Series 2007 for the purposes of improving and extending the System through purchase of new meter readers, rehab and expansion of lift stations, water reuse project, clarifier improvements, water and wastewater lines replacement, and water valves replacements. Any costs of the project not financed out of the original or investment proceeds of the bonds will be financed by the District.

Advance Refunding

The District issued \$6,345,000 in public improvement bonds with a 2.64% interest rate. The proceeds were used to advance refund \$6,070,000 of outstanding 2007 Series Waterworks and Sewer System revenue bonds which had interest rates ranging from 4% to 5%. The net proceeds of \$6,211,115 (after payment of \$133,885 of issuance costs) and a District contribution of \$117,701 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2007 Series Waterworks and Sewer System revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$196,124. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The District advance refunded the 2007 Series Waterworks and Sewer System revenue bonds to reduce its total debt service payments by \$589,787 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$378,940, after taking into consideration the contribution from the District in the amount of \$117,701.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 7 – LONG-TERM DEBT – CONTINUED

Bond Issue	Interest Rate	Balance at September 30, 2015
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 15, 2012. Maturity date June 1, 2032.	2% - 5%	14,255,000
Total General Obligation Tax Bonds		14,255,000
 \$6,345,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. Issued April 1, 2015. Maturity date March 1, 2027.	 2.64%	 6,280,000
Total Revenue Bonds		6,280,000
Total General Obligation and Revenue Bonds		\$ 20,535,000

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2015 are as follows:

	9/30/14	Additions	Reductions	09/30/15	Due Within One Year
Bonds payable					
General Obligation Tax Bonds	\$ 15,465,000	\$ -	\$ 1,210,000	\$ 14,255,000	\$ 655,000
Revenue Bonds	6,455,000	6,345,000	6,520,000	6,280,000	455,000
Plus: unamortized premium	362,275	-	79,337	282,938	-
Total bonds payable	22,282,275	6,345,000	7,809,337	20,817,938	1,110,000
Net pension liability	1,218,483	92,826	-	1,311,309	-
Compensated Absences	299,578	-	237,259	62,319	-
	\$ 23,800,336	\$ 6,437,826	\$ 8,046,596	\$ 22,191,566	\$ 1,110,000

The debt service fund makes the payments on the bonds payable. The compensated absences are liquidated by the general fund. This is the first fiscal year that the District has reported a net pension liability. In the coming years, this liability is expected to be liquidated by the general fund.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 7 – LONG-TERM DEBT – CONTINUED

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

Year Ended September 30	Revenue Notes		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2016	455,000	159,786	655,000	483,563
2017	465,000	147,642	670,000	470,463
2018	475,000	135,234	685,000	457,063
2019	490,000	122,496	705,000	436,513
2020	500,000	109,428	725,000	415,363
2021 - 2025	2,710,000	338,844	3,980,000	1,712,638
2026 - 2030	1,185,000	31,482	4,685,000	1,009,313
2031 - 2035	-	-	2,150,000	129,800
2036 - 2040	-	-	-	-
Thereafter	-	-	-	-
Total	<u>\$ 6,280,000</u>	<u>\$ 1,044,912</u>	<u>\$ 14,255,000</u>	<u>\$ 5,114,716</u>

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’s defined benefit pension plan provides pensions for all permanent full-time employees of the District. The District participates in the 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. TCDRS in the aggregate issues a comprehensive annual

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

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.

Benefits provided

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

Employees covered by benefit terms

At December 31, 2014, the following employees were covered by the benefit terms:

	<u>Number of Employees</u>
Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>75</u>
	<u>154</u>

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contributions

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contributions rate of the employer is actuarially determined annually and approved by the TCDRS Board of Trustees. The contribution rate payable by the employee members for the calendar year 2014 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

B. Net Pension Liability

The District's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Mortality rates were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP -2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

The actuarial assumptions that determined the total pension liability as of December 31, 2014 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.

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 2015 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2013 for more details.

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Asset Class	Benchmark	Target Allocation (*1)	Geometric Real Rate of Return (Expected minus inflation) (*2)
US Equities	Dow Jones U.S. Total Stock Market Index	16.5%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (*3)	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities – Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment –Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPS)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (*4)	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composit Index	25.00%	5.15%

(*1) Target asset allocation adopted at the April 2015 TCDRS Board meeting.

(*2) Geometric real rates of return in addition to assumed inflation of 1.7%, per Cliffwater's 2015 capital market assumptions.

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

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discount rate

The discount rate used to measure the total pension liability was 8.10%. The rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus a 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The method used to determine the discount rate reflects the following funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act:

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

The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and the net pension liability of the employer is equal to the long-term assumed rate of return on investments.

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

C. Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of December 31, 2013	\$ 10,709,272	\$ 9,490,788	\$ 1,218,484
Changes for the year:			
Service Cost	349,544		349,544
Interest on total pension liability (*1)	857,968		857,968
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	94,417		94,417
Effect of assumptions changes or inputs	-		-
Refund of contributions	(24,000)	(24,000)	-
Benefit payments	(564,331)	(564,331)	-
Administrative expenses		(7,549)	7,549
Member contributions		187,581	(187,581)
Net investment income		643,747	(643,747)
Employer contributions		369,552	(369,552)
Other (*2)	-	15,773	(15,773)
Balances as of December 31, 2014	<u>\$ 11,422,870</u>	<u>\$ 10,111,561</u>	<u>\$ 1,311,309</u>

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

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

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Sensitivity Analysis

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

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 12,966,956	\$ 11,422,870	\$ 10,158,088
Fiduciary net position	10,111,561	10,111,561	10,111,561
Net pension liability/(asset)	<u>\$ 2,855,395</u>	<u>\$ 1,311,309</u>	<u>\$ 46,527</u>

Pension Plan Fiduciary Net Position

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

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED

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

For the year ended September 30, 2015, The District recognized pension expense of \$278,381. The District reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ 78,681
Net difference between projected and actual earnings	-	105,315
Contributions made subsequent to measurement date <i>(*1)</i>	N/A	256,180
Total deferred inflows/outflows of resources related to pensions	\$ -	\$ 440,176

*(*1) Reflects employer contributions made subsequent to the measurement date through the employer's fiscal year end. This amount will be recognized as a reduction in Net Pension liability for the year ending September 30, 2016.*

(This space intentionally left blank)

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – 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,

2015	\$ 42,065
2016	42,065
2017	42,065
2018	42,062
2019	15,736
Thereafter (*1)	-

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

NOTE 10 – RISK MANAGEMENT

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

During the year ended September 30, 2015, employees of the District were covered by a health, dental, and life insurance plan (the “Plan”). The District paid premiums of \$491.80 per month per employee to the Plan for health insurance and \$28.34 per month per employee to the Plan for dental and life insurance. Employees, at their options, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contact between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for Blue Cross Blue Shield are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

LAGUNA MADRE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital projects	\$ 36,180
General	Debt service	100
Total		<u>\$ 36,280</u>

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

NOTE 12 – INTERFUND TRANSFERS

	<u>Transfer in/(out):</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Emergency Fund</u>	
Transfer out:					
General fund	\$ (1,083,565)	\$ -	\$ -	\$ -	\$ (1,083,565)
Debt service	-	-	664,583	-	664,583
Capital projects	-	418,982	-	-	418,982
	<u>\$ (1,083,565)</u>	<u>\$ 418,982</u>	<u>\$ 664,583</u>	<u>\$ -</u>	<u>\$ -</u>

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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015

NOTE 13 – AUTHORIZED, ISSUED AND OUTSTANDING DEBT

On May 14, 2011, voters in the Laguna Madre Water District approved two propositions for issuing new bonds. At September 30, 2015, only a portion of that debt had been issued. The projects are as follows:

	Authorized	Issued May 15, 2012	Remaining Authorization
System improvements	\$ 28,750,000	\$ 21,170,000	\$ 7,580,000
Seawater desalination plant	15,655,000	-	15,655,000
	\$ 44,405,000	\$ 21,170,000	\$ 23,235,000

NOTE 14 – MAJOR CONSTRUCTION COMMITMENTS

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

Project:	Amount committed:
Cuates Pump Station and pipeline	\$ 260,801
Microfiltration project	258,467
Water Reclamation Facility	88,213
	\$ 607,481

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The Statement of Activities reflects a prior period adjustment of \$945,317 due to the implementation of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date* which gives guidance relative to accounting and financial reporting for pensions. Corresponding entries were made to record the District's net pension liability, deferred outflows related to pensions, and the net pension expense.

(This page intentionally left blank)

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

LAGUNA MADRE WATER DISTRICT

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Water services	\$ 4,584,072	\$ 4,414,174	\$ 4,596,999	\$ 182,825
Wastewater services	2,999,962	2,768,566	3,063,040	294,474
Penalties and interest	63,012	63,012	63,063	51
Tap fees	93,668	93,668	167,919	74,251
Investment earnings	12,999	12,999	5,195	(7,804)
Miscellaneous	85,082	85,082	126,676	41,594
Total revenues	<u>7,838,795</u>	<u>7,437,501</u>	<u>8,022,892</u>	<u>585,391</u>
Expenditures:				
Service operations:				
Professional fees	442,650	452,725	346,321	106,404
Payroll and benefits	3,848,227	3,761,007	3,668,463	92,544
Utilities	868,800	811,800	804,031	7,769
Materials and supplies	857,400	1,107,044	986,917	120,127
Repairs and maintenance	283,050	321,440	280,086	41,354
Other	210,170	195,275	206,859	(11,584)
Capital outlay	<u>799,500</u>	<u>617,073</u>	<u>367,244</u>	<u>249,829</u>
Total expenditures	<u>7,309,797</u>	<u>7,266,364</u>	<u>6,659,921</u>	<u>606,443</u>
Excess (deficiency) of revenues over expenditures	528,998	171,137	1,362,971	1,191,834
Other financing sources/uses:				
Gain on sale of assets	4,850	4,850	4,500	(350)
Transfers-internal activities	<u>(732,823)</u>	<u>(732,823)</u>	<u>(1,083,565)</u>	<u>(350,742)</u>
Net other financing sources/uses	<u>(727,973)</u>	<u>(727,973)</u>	<u>(1,079,065)</u>	<u>(351,092)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (198,975)	\$ (556,836)	283,906	\$ 840,742
Fund balance:				
Beginning of the year			<u>5,487,421</u>	
End of the year			<u><u>\$ 5,771,327</u></u>	

Laguna Madre Water District

Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2015

	Year Ended December 31
	<u>2014</u>
Total Pension Liability	
Service cost	\$ 349,544
Interest on total pension liability	857,968
Effect of plan changes	-
Effect of assumption changes or inputs	-
Effect of economic/demographic (gains) or losses	94,417
Benefit payments/refunds of contributions	(588,331)
Net change in total pension liability	<u>713,598</u>
Total pension liability, beginning	10,709,272
Total pension liability, ending (a)	<u>\$ 11,422,870</u>
Fiduciary Net Position	
Employer contributions	\$ 369,552
Member contributions	187,581
Investment income net of investment expenses	643,747
Benefit payments/refunds of contributions	(588,331)
Administrative expenses	(7,549)
Other	15,773
Net change in in fiduciary net position	<u>620,773</u>
Fiduciary net position, beginning	9,490,788
Fiduciary net position, ending (b)	<u>\$ 10,111,561</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 1,311,309</u>
Fiduciary net position as a % of total pension liability	88.52%
Pensionable covered payroll	\$ 2,679,726
Net pension liability as a % of covered payroll	48.93%

Laguna Madre Water District

**Schedule of Employer Contributions
September 30, 2015**

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Contribution as a % of Covered Payroll
2005	Not Available	Not Available	Not Available	Not Available	Not Available
2006	\$ 210,162	\$ 210,162	\$ -	\$ 1,766,065	11.9%
2007	237,042	237,042	-	1,991,947	11.9%
2008	258,909	263,110	(4,201)	2,211,007	11.9%
2009	265,941	271,182	(5,241)	2,278,844	11.9%
2010	281,602	281,602	-	2,306,320	12.2%
2011	267,070	267,070	-	2,167,776	12.3%
2012	309,321	309,321	-	2,296,351	13.5%
2013	351,711	351,711	-	2,550,463	13.8%
2014	369,552	369,552	-	2,679,726	13.8%

SUPPLEMENTARY INFORMATION

LAGUNA MADRE WATER DISTRICT

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Property taxes	\$ 1,373,467	\$ 1,373,467	\$ 1,348,644	\$ (24,823)
Penalties and interest	75,000	75,000	51,639	(23,361)
Investment earnings	10,500	10,500	3,663	(6,837)
Miscellaneous			671	671
Total revenues	<u>1,458,967</u>	<u>1,458,967</u>	<u>1,404,617</u>	<u>(54,350)</u>
Expenditures:				
Debt service:				
Principal	1,040,000	1,040,000	1,660,000	(620,000)
Interest	801,644	801,644	728,909	72,735
Bond issuance costs	-	-	140,385	(140,385)
Advance refunding escrow	-	-	117,701	(117,701)
Contracted service	103,900	103,900	62,178	41,722
Total expenditures	<u>1,945,544</u>	<u>1,945,544</u>	<u>2,709,173</u>	<u>(763,629)</u>
Excess (deficiency) of revenues over expenditures	(486,577)	(486,577)	(1,304,556)	(817,979)
Other financing sources/uses:				
Refunding bonds issued	-	-	6,345,000	6,345,000
Payment to refunded bond escrow	-	-	(6,211,115)	(6,211,115)
Transfers-internal activities	664,581	664,581	664,583	2
Net other financing sources/uses	<u>664,581</u>	<u>664,581</u>	<u>798,468</u>	<u>2</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 178,004	\$ 178,004	(506,088)	\$ (817,977)
Fund balance:				
Beginning of the year			<u>3,252,868</u>	
End of the year			<u>\$ 2,746,780</u>	

**TEXAS SUPPLEMENTARY
INFORMATION (TSI) SECTION**

LAGUNA MADRE WATER DISTRICT

NOTES REQUIRED BY THE WATER DISTRICT ACCOUNTING MANUAL SEPTEMBER 30, 2015

CREATION OF DISTRICT

History

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

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

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

Tax Revenues

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

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

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

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

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

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

LAGUNA MADRE WATER DISTRICT

TSI - 1. SERVICES AND RATES

September 30, 2015

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

- Retail water
- Retail wastewater

2. Retail service providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	1,000 Gallons over minimum	Usage Levels
WATER: \$	11.90	4,000	N	\$ 2.40	4,001 to 10,000
				3.78	10,001 to 20,000
				5.39	20,001 plus
WASTEWATER*:	12.35	3,000	N	2.50	3,001 to 7,500
* Based on systemwide 75% of water flow				3.88	7,501 to 15,000
				5.50	15,001 plus

SURCHARGE: \$0.05

District employs winter averaging for wastewater usage? No

Total water and wastewater charges per 10,000 gallons usage (including surcharge): \$ 50.15

LAGUNA MADRE WATER DISTRICT
TSI - 1. SERVICES AND RATES
September 30, 2015

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	5,589	4,697	-	-
1"	1,252	1,097	-	-
2"	364	294	-	-
4"	176	113	-	-
6"	32	32	-	-
8"	1	1	-	-
10"	-	-		
18"	1	1		
Total water:	7,415	6,235	-	-
Total wastewater:	5,493	5,344	-	-

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

Gallons pumped into system: 1,202,924,000
Gallons billed to customer: 1,157,087,500
Water accountability ratio (Gallons billed/gallons pumped): 96.18%

4. Location of the District:

County in which District is located: Cameron
Is the District located entirely within one county? Yes
Is the District located within a city? Yes
Cities in which District is located: Port Isabel, South Padre Island, Town of Laguna Vista
Is the District located within a city's extra territorial jurisdiction (ETJ)? Yes - partly
ETJ's in which District is located: Laguna Heights (unincorporated)
Are board members appointed by an office outside the District? No

LAGUNA MADRE WATER DISTRICT
TSI - 2. GENERAL FUND EXPENDITURES
For the Fiscal Year Ended Sept 30, 2015

Personnel (including benefits)	\$	3,668,463
 Professional Fees:		
Auditing		17,000
Legal		17,090
Engineering		122,882
Financial Advisor		40,950
 Contracted Services:		
Other Contracted Services		66,147
 Utilities		
		804,031
 Repairs and Maintenance		
		280,086
 Administrative Expenditures:		
Office Supplies		27,918
Insurance		146,420
Other Administrative Expenditures		60,439
 Capital Outlay:		
Capital Assets		53,951
Expenditures not Capitalized		313,293
 Solid Waste Disposal		
		82,252
 Materials and Supplies		
		958,999
 TOTAL EXPENDITURES		 <u><u>\$ 6,659,921</u></u>

Number of persons employed by the District: 73 Full-Time

LAGUNA MADRE WATER DISTRICT
TSI - 3. TEMPORARY INVESTMENTS
September 30, 2015

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund				
CD's - IBC	Various	Variable	N/A	\$ 504,445
				<u>504,445</u>
Debt Service Fund				
CD's - IBC	Various	Variable	N/A	454,000
				<u>454,000</u>
Total - All Funds				<u><u>\$ 958,445</u></u>

LAGUNA MADRE WATER DISTRICT
TSI - 4. TAXES LEVIED AND RECEIVABLE
September 30, 2015

	Debt Service Taxes
Taxes Receivable:	
Beginning of Year	288,199
2014 Original Tax Levy	1,271,531
Abatements/Adjustments:	(77,301)
Total to be accounted for	1,482,429
 Tax collections:	
Current year	1,251,219
Prior year	90,106
Less: 60-day accrual	(17,409)
Total collections	1,323,916
 Taxes Receivable, End of Year	 \$ 158,513
 Taxes Receivable, By Years	
Prior years	132,094
Current year - 2014	26,419
Taxes Receivable, End of Year	\$ 158,513

Property Valuations:	2014	2013	2012	2011
Land	\$ 1,323,826,813	\$ 1,376,777,047	\$ 1,389,377,930	\$ 1,266,907,616
Improvements	2,027,911,719	2,055,225,938	2,073,422,214	2,222,138,988
Personal Property	98,291,083	90,029,621	89,924,938	86,978,357
Total property	\$ 3,450,029,615	\$ 3,522,032,606	\$ 3,552,725,082	\$ 3,576,024,961
Valuations	\$ 3,450,029,615	\$ 3,522,032,606	\$ 3,552,725,082	\$ 3,576,024,961
 Tax Rates Per \$100 Valuation:				
Debt service tax rate	\$0.039260	\$0.080820	\$0.080820	\$0.080820
 Original Tax Levy:	 \$ 1,271,531	 \$ 2,672,528	 \$ 2,697,794	 \$ 2,694,929
 Percent of Taxes Collected to Taxes Levied	 98.40%	 95.98%	 95.08%	 92.80%

LAGUNA MADRE WATER DISTRICT
TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
September 30, 2015

Due During Fiscal Year Ending	Unlimited Tax Bonds, Series 2012		
	Principal Due June 1,	Interest Due June 1 & Dec 1	Total
2016	\$ 655,000	\$ 483,563	1,138,563
2017	670,000	470,463	1,140,463
2018	685,000	457,063	1,142,063
2019	705,000	436,513	1,141,513
2020	725,000	415,363	1,140,363
2021	745,000	393,613	1,138,613
2022	770,000	371,263	1,141,263
2023	800,000	340,463	1,140,463
2024	820,000	316,463	1,136,463
2025	845,000	290,838	1,135,838
2026	875,000	263,375	1,138,375
2027	905,000	234,500	1,139,500
2028	935,000	203,956	1,138,956
2029	965,000	171,231	1,136,231
2030	1,005,000	136,250	1,141,250
2031	1,055,000	86,000	1,141,000
2032	1,095,000	43,800	1,138,800
	<u>\$ 14,255,000</u>	<u>\$ 5,114,717</u>	<u>\$ 19,369,717</u>

LAGUNA MADRE WATER DISTRICT
TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
September 30, 2015

Due During Fiscal Year Ending	Waterworks and Sewer System Revenue Bonds, Series 2015		
	Principal	Interest Due	Total
	Due March 1,	March 1 & Sept 1	
2016	\$ 455,000	\$ 159,786	\$ 614,786
2017	465,000	147,642	612,642
2018	475,000	135,234	610,234
2019	490,000	122,496	612,496
2020	500,000	109,428	609,428
2021	515,000	96,030	611,030
2022	530,000	82,236	612,236
2023	540,000	68,112	608,112
2024	555,000	53,658	608,658
2025	570,000	38,808	608,808
2026	585,000	23,562	608,562
2027	600,000	7,920	607,920
	\$ 6,280,000	\$ 1,044,912	\$ 7,324,912

LAGUNA MADRE WATER DISTRICT
TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
September 30, 2015

Due During Fiscal Year Ending	Annual Requirements for All Series		
	Principal Due	Interest Due	Total
2016	\$ 1,110,000	643,349	\$ 1,753,349
2017	1,135,000	618,105	1,753,105
2018	1,160,000	592,297	1,752,297
2019	1,195,000	559,009	1,754,009
2020	1,225,000	524,791	1,749,791
2021	1,260,000	489,643	1,749,643
2022	1,300,000	453,499	1,753,499
2023	1,340,000	408,575	1,748,575
2024	1,375,000	370,121	1,745,121
2025	1,415,000	329,646	1,744,646
2026	1,460,000	286,937	1,746,937
2027	1,505,000	242,420	1,747,420
2028	935,000	203,956	1,138,956
2029	965,000	171,231	1,136,231
2030	1,005,000	136,250	1,141,250
2031	1,055,000	86,000	1,141,000
2032	1,095,000	43,800	1,138,800
	<u>\$ 20,535,000</u>	<u>\$ 6,159,629</u>	<u>\$ 26,694,629</u>

LAGUNA MADRE WATER DISTRICT
TSI - 6. CHANGES IN LONG-TERM BONDED DEBT
September 30, 2015

	Bond Issues				Series Total
	Series 2005	Series 2007	Series 2012	Series 2015	
Interest rates	4.75%	4.0 - 5.0%	2.0 - 5.0%	2.64%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	6/1, 12/1	3/1, 9/1	
Maturity dates	3/1/2005 to 03/01/2045	03/08/2007 to 03/01/2027	6/1/2012 to 6/1/2032	9/1/2015 to 3/1/2027	
Bonds outstanding at beginning of current year	\$ 565,000	\$ 6,455,000	\$ 14,900,000	\$ -	\$ 21,920,000
Bonds sold during Current Year	-	-	-	6,345,000	\$ 6,345,000
Bonds refunded	-	6,070,000.00	-	-	\$ 6,070,000
Bonds retired	565,000	385,000	645,000	65,000	\$ 1,660,000
Bonds outstanding at end of current year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,255,000</u>	<u>\$ 6,280,000</u>	<u>\$ 20,535,000</u>
Interest paid during the Fiscal Year	<u>\$ 15,431</u>	<u>\$ 143,641</u>	<u>\$ 496,463</u>	<u>\$ 69,795</u>	<u>\$ 725,330</u>

Paying agent Name & City

Series 2005: USDA, Rural Development, Edinburg, Texas
Series 2007: US Bank Nat'l Assoc., Global Trust Services, Houston, Texas
Series 2012: Bank of New York Mellon, Corporate Trust, New York, New York
Series 2015: Regions Capital Advantage, Inc., Birmingham, Alabama

Bond Authority:	<u>Tax Bonds</u>	<u>Revenue Bonds</u>
Amount Authorized	\$ 44,405,000	\$ -
Amount Issued	21,170,000	-
Remaining to be Issued	<u>\$ 23,235,000</u>	<u>\$ -</u>

Debt Service Fund Cash and Temporary Investments balances as of 9-30-14: \$2,721,694

Average annual Debt Service payment (principal & Interest) for remaining term of all debt: \$1,570,272

LAGUNA MADRE WATER DISTRICT
TSI - 7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND AND DEBT SERVICE FUND
Five Years Ended

GENERAL FUND:	Sept. 2015	Sept. 2014	Sept. 2013	April 2013	April 2012
REVENUES:					
Water service	\$ 4,596,999	\$ 4,331,211	\$ 2,251,579	4,949,734	\$ 4,818,723
Wastewater service	3,063,040	2,828,501	1,459,563	3,218,697	3,181,969
Penalty and interest	63,063	57,194	28,115	69,841	75,159
Intergovernmental	-	-	-	297,509	-
Tap connection fees	167,919	111,151	23,850	102,783	91,414
Interest on investments	5,195	5,990	2,143	11,661	13,800
Miscellaneous	126,676	125,229	48,539	88,503	87,398
TOTAL REVENUES	<u>8,022,892</u>	<u>7,459,276</u>	<u>3,813,789</u>	<u>8,738,728</u>	<u>8,268,463</u>
EXPENDITURES:					
Professional fees	346,321	322,314	130,587	326,684	249,286
Payroll and benefits	3,668,463	3,810,930	1,483,380	3,619,922	3,276,694
Utilities	804,031	769,218	487,287	923,408	802,178
Materials and supplies	986,917	846,303	450,425	848,815	699,414
Repairs and maintenance	280,086	255,350	140,593	391,607	318,490
Other expenditures	206,859	167,627	67,869	275,786	169,816
Capital Outlay	367,244	508,905	97,785	691,918	174,394
TOTAL EXPENDITURES	<u>6,659,921</u>	<u>6,680,647</u>	<u>2,857,926</u>	<u>7,078,140</u>	<u>5,690,272</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 1,362,971</u>	<u>\$ 778,629</u>	<u>\$ 955,863</u>	<u>\$ 1,660,588</u>	<u>\$ 2,578,191</u>
DEBT SERVICE FUND:					
REVENUES:					
Property taxes	\$ 1,348,644	\$ 2,668,060	\$ 98,278	\$ 2,783,323	\$ 2,724,043
Penalty and interest	51,639	62,146	33,861	88,898	74,483
Interest on investments	3,663	7,063	1,650	17,135	16,322
Miscellaneous	671	-	-	-	-
TOTAL REVENUES	<u>1,404,617</u>	<u>2,737,269</u>	<u>133,789</u>	<u>2,889,356</u>	<u>2,814,848</u>
EXPENDITURES:					
Tax collection expense	33,636	3,423	1,251	70,761	64,424
Appraisal charge	30,221	101,873	6,892	27,655	26,905
Debt service, interest and fees	2,504,931	3,204,346	3,421,586	3,538,312	776,103
Bond issue costs	140,385	-	-	480,535	-
TOTAL EXPENDITURES	<u>2,709,173</u>	<u>3,309,642</u>	<u>3,429,729</u>	<u>4,117,263</u>	<u>867,432</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,304,556)</u>	<u>\$ (572,373)</u>	<u>\$ (3,295,940)</u>	<u>\$ (1,227,907)</u>	<u>\$ 1,947,416</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>6,319</u>	<u>6,208</u>	<u>6,208</u>	<u>6,208</u>	<u>6,165</u>
TOTAL ACTIVE RETAIL WASTE WATER CONNECTIONS	<u>5,413</u>	<u>5,344</u>	<u>5,350</u>	<u>6,214</u>	<u>6,193</u>

LAGUNA MADRE WATER DISTRICT
TSI - 7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - Continued
GENERAL FUND AND DEBT SERVICE FUND
Five Years Ended

Percent of Fund Total Revenues				
Sept. 2015	Sept. 2014	Sept. 2013	April 2013	April 2012
57.3%	58.1%	59.0%	56.6%	58.3%
38.2%	37.9%	38.3%	36.8%	38.5%
0.8%	0.8%	0.7%	0.8%	0.9%
0.0%	0.0%	0.0%	3.4%	0.0%
2.1%	1.5%	0.6%	1.2%	1.1%
0.1%	0.1%	0.1%	0.1%	0.2%
1.6%	1.7%	1.3%	1.0%	1.1%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
4.3%	4.3%	3.4%	3.7%	3.0%
45.7%	51.1%	38.9%	41.4%	39.6%
10.0%	10.3%	12.8%	10.6%	9.7%
12.3%	11.3%	11.8%	9.7%	8.5%
3.5%	3.4%	3.7%	4.5%	3.9%
2.6%	2.2%	1.8%	3.2%	2.1%
4.6%	6.8%	2.6%	7.9%	2.1%
<u>83.0%</u>	<u>89.6%</u>	<u>74.9%</u>	<u>81.0%</u>	<u>68.8%</u>
<u>17.0%</u>	<u>10.4%</u>	<u>25.1%</u>	<u>19.0%</u>	<u>31.2%</u>
96.0%	97.5%	73.5%	96.3%	96.8%
3.7%	2.3%	25.3%	3.1%	2.6%
0.3%	0.3%	1.2%	0.6%	0.6%
0.0%	0.0%	0.0%	0.0%	0.0%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
2.4%	0.1%	0.9%	2.4%	2.3%
2.2%	3.7%	5.2%	1.0%	1.0%
178.3%	117.1%	2557.4%	122.5%	27.6%
10.0%	0.0%	0.0%	16.6%	0.0%
<u>192.9%</u>	<u>120.9%</u>	<u>2563.5%</u>	<u>142.5%</u>	<u>30.8%</u>
<u>-92.9%</u>	<u>-20.9%</u>	<u>-2463.5%</u>	<u>-42.5%</u>	<u>69.2%</u>

LAGUNA MADRE WATER DISTRICT
TSI - 8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
September 30, 2015

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

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

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

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2015	Expense Reimbursement 9/30/2015	Title at Year End
BOARD MEMBERS				
Jeff Keplinger 12 Ocelot Trail Laguna Vista, Tx 78578	11/12 - 11/16	\$ -	\$ 191.54	Chairman
Whitey Thomas 913 Yturria Port Isabel, Tx 78578	11/12 - 11/16	\$ -	\$ 248.89	Vice-Chairman
Martin Cantu 1805 N. Shore Dr Port Isabel, Tx 78578	3/15 - 11/19	\$ -	\$ 25.02	Secretary
Scott Friedman P.O. Box 3897 South Padre Island, Tx 78597	11/12 - 11/16	\$ -	\$ 529.26	Director
Rick Wells 115 S. Trevino Port Isabel, Tx 78578	11/10 - 11/14	\$ -	\$ -	Director

LAGUNA MADRE WATER DISTRICT

TSI - 8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS - Continued

September 30, 2015

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2015	Expense Reimbursement 9/30/2015	Title at Year End
KEY ADMINISTRATIVE PERSONNEL				
Carlos J. Galvan 1636 Oklahoma Street Port Isabel, Tx 78578	2001	\$ -	\$ 1,214.24	General Manager/ Director of Operations
Sanjuana Garcia 5211 Killian Ave. Brownsville, Tx 78520	2015	\$ -	\$ 831.97	Director of Finance
Charles Ortiz 2085 Sunset Lake Brownsville, Tx 78520	2011	\$ -	\$ 666.06	District Engineer
Victor Valdez 1207 Tangelo Ct Port Isabel, Tx 78578	2013	\$ -	\$ -	Director of Operations
CONSULTANTS				
Beatty Bangle Strama 400 West 15 St. Ste 1450 Austin, Tx 78701	2015	\$ 12,935.70	\$ -	Attorneys
J. A. Magallanes P.O. Box 4901 Brownsville, Tx 78520	1997	\$ 4,154.44	\$ -	Attorneys
Estrada Hinojosa & Company, Inc. 1717 Main Street Dallas, Tx 75201	1999	\$ 10,000.00	\$ -	Financial Advisor

LAGUNA MADRE WATER DISTRICT
TSI - 8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS - Continued
September 30, 2015

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2015	Expense Reimbursement 9/30/2015	Title at Year End
CONSULTANTS - Continued				
Orbit Broadband LLC 311-D Vogel Drive Mercedes, Tx 78570	2012	\$ 37,551.00	\$ -	IT Consultant
Jose Alfredo Ruiz DBA Land 27060 BS Blvd Harlingen, Tx 78552	2015	\$ 1,072.00	\$ -	Consultant
Economist.Com LLC 5500 Democracy Dr. Ste 130 Plano, Tx 75024	2015	\$ 26,000.00	\$ -	Consultant
RCI Technologies 12829 Wetmore Rd San Antonio, Tx 78247	2015	\$ 1,950.00	\$ -	Consultant

OTHER INFORMATION

LAGUNA MADRE WATER DISTRICT

TOP TEN TAXPAYERS

SEPTEMBER 30, 2015

<u>Owner ID</u>	<u>Taxpayer Name</u>	<u>Market Value</u>	<u>Taxable Value</u>
324942	AEP TEXAS CENTRAL CO	15,999,140	15,999,140
562039	SPI BEACH WATER RESORT WATERPARK LLC	10,882,174	10,882,174
580926	AGORA USA LP	10,738,595	10,738,595
536143	SUBSEA 7 PORT ISABEL LLC	10,123,254	10,123,254
541018	BAHIA MAR TOWER LLC	9,591,971	9,591,971
526932	SAPPHIRE VP LP ATTN STEPHEN SWAN	9,000,000	9,000,000
513223	CAB PARTNERS LP	8,816,026	8,816,026
336660	PENINSULA ISLAND RESORT & SPA LLC	8,224,739	8,224,739
98181	ICS MANAGEMENT COMPANY	8,093,443	8,093,443
181057	WAL-MART STORES INC	7,332,057	7,332,057

LAGUNA MADRE WATER DISTRICT

TOP TEN RATE PAYERS
 SEPTEMBER 30, 2015

Account Name	Address	City	Amount
LONG ISLAND VILLAGE	900 S GARCIA ST	PORT ISABEL	331,387.30
TEXAS PACK INC	508 PORT RD	PORT ISABEL	232,306.48
SCHILITTERBAHN SO PADRE	200 PADRE BLVD	SOUTH PADRE ISLAND	197,446.73
SSPIBR, LTD dba PEARL SO PADRE	310 PADRE BLVD	SOUTH PADRE ISLAND	166,132.42
CAMERON COUNTY PARKS SYSTEM	33174 STATE PARK ROAD 100	SOUTH PADRE ISLAND	138,372.70
SAIDA ROYALE	400 PADRE BLVD	SOUTH PADRE ISLAND	124,641.99
BRIDGEPOINT CONDOS	334 PADRE BLVD	SOUTH PADRE ISLAND	63,760.22
AFFILIATED HOSPITALITY LLC	7010 PADRE BLVD	SOUTH PADRE ISLAND	50,744.29
SPRINGLODGE LP	6200 PADRE BLVD	SOUTH PADRE ISLAND	45,798.11
SPI MANAGEMENT CO	500 PADRE BLVD	SOUTH PADRE ISLAND	43,859.88

(This page intentionally left blank)

COMPLIANCE SECTION

(This page intentionally left blank)

INDEPENDENT AUDITOR'S 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, 2015, 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 December 21, 2015.

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.

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.

A handwritten signature in black ink, appearing to read "Long Chilton LLP", is positioned above the firm's name.

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
December 21, 2015