

**LAGUNA MADRE WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTARY INFORMATION**  
**SEPTEMBER 30, 2013**



LAGUNA MADRE WATER DISTRICT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2013

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 .....	7-17

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position and Governmental Funds Balance Sheet.....	19
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Net Position.....	20
Notes to the Basic Financial Statements.....	21-46

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund - Budget and Actual .....	47
Schedule of Funding Progress .....	48

**SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Debt Service Fund - Budget and Actual .....	49
--	----

LAGUNA MADRE WATER DISTRICT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2013

TABLE OF CONTENTS

**TEXAS SUPPLEMENTARY INFORMATION (TSI) SECTION**

Notes required by the Water District Accounting Manual .....	51
TSI – 1. Services and Rates .....	52-53
TSI – 2. General Fund Expenditures .....	54
TSI – 3. Temporary Investments .....	55
TSI – 4. Taxes Levied and Receivable .....	56
TSI – 5. Long-Term Debt Service Requirements by Years .....	57-61
TSI – 6. Changes in Long-Term Bonded Debt.....	62
TSI – 7. Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years .....	63-64
TSI – 8. Board Members, Key Personnel and Consultants .....	65-66

**OTHER INFORMATION**

Top Ten Taxpayers.....	67
Top Ten Rate Payers.....	68

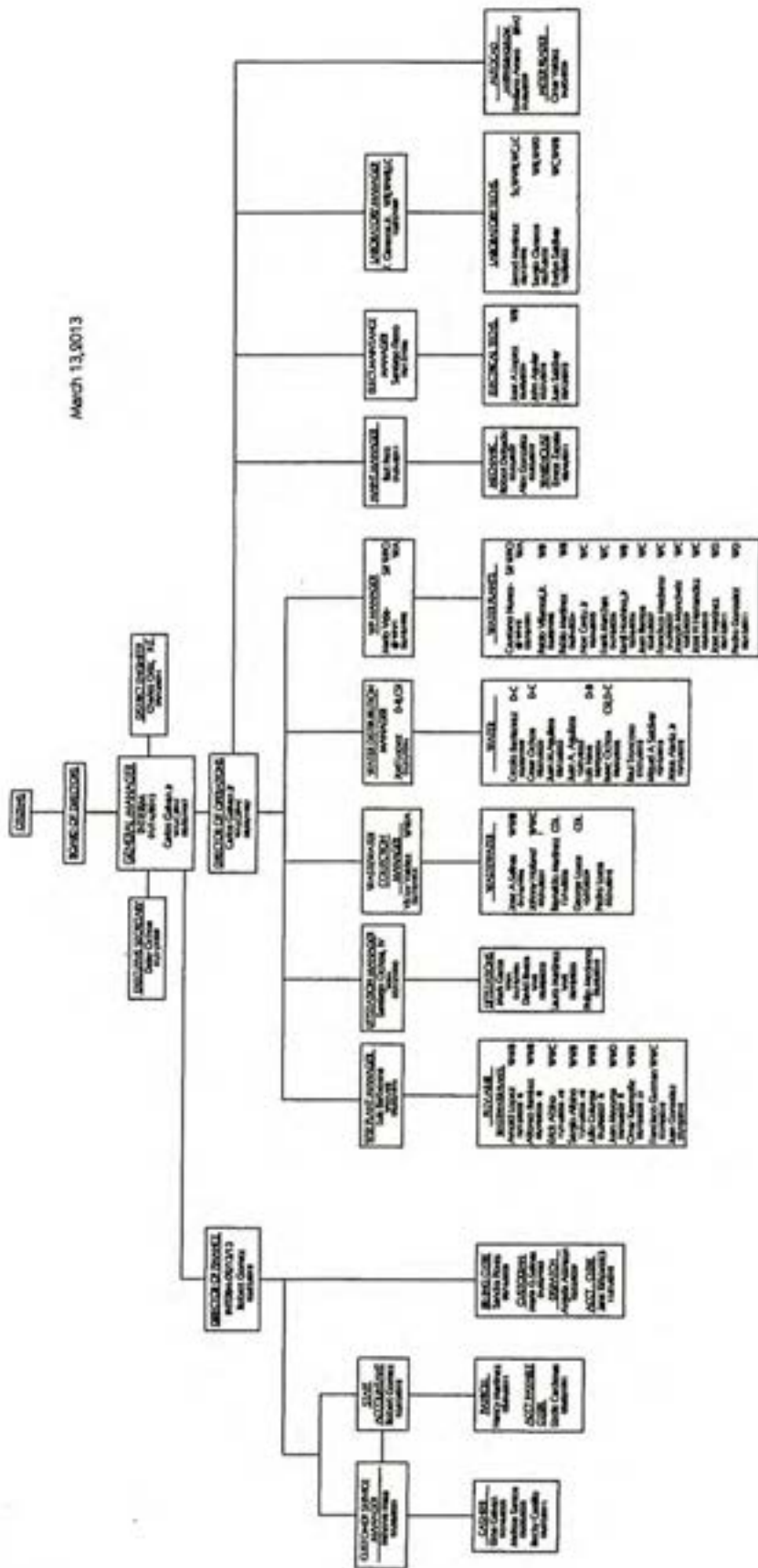
**COMPLIANCE SECTION**

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 Standards</i> .....	70-71
---	-------

## **INTRODUCTORY SECTION**



March 13, 2013



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 \_\_\_\_\_, 2013, its annual audit report for the Five 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: \_\_\_\_\_, 2013 By: \_\_\_\_\_

\_\_\_\_\_  
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this \_\_\_\_ day of \_\_\_\_\_, 2013.

\_\_\_\_\_  
(Signature of Notary)

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



**FINANCIAL SECTION**



## 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 five month period ended September 30, 2013, 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 of 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, as of September 30, 2013, and the respective change in financial position for the five month period then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 7 through 17 and 47 through 48 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 financial statements as a whole. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and



certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated in all material respects in relation to the 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.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, 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  
January 6, 2014

**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 five month period ended September 30, 2013. The MD&A should be read in conjunction with the District's financial statements which follow this section.

Laguna Madre Water District changed its accounting year from April 30<sup>th</sup> to September 30<sup>th</sup>. It was decided that having a year end at September 30<sup>th</sup> was more beneficial for its accounting cycle since the biggest demand for water ends in the summer with the labor-day weekend. It also coincides with the end of the current year property tax collection and the end of the insurance fiscal year. The decision was made after several discussions with various individuals which included the Financial Advisors, Attorney of record for the outstanding bonds, and the Laguna Madre Water District General Manager. The request was submitted to the Board of Directors and approved on June 12<sup>th</sup>.

### Financial Highlights

- In the Government-Wide Statement of Net Position, the total assets of the District exceeded its liabilities at the five month fiscal period ended September 30, 2013, by \$67,251,800. Of this amount \$7,369,945 (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 \$57,200,351.
- The restricted portion of the Government-Wide net position includes the principal payment amounts of \$2,681,504 due fiscal year 2013-14.
- The fund balance in the General Fund increased by \$675,829. The ending fund balance at five month fiscal period ended September 30, 2013, was \$5,373,468 which represented \$3,137,960 in expenditures and net operating transfers to other funds. The combined General Fund and Emergency fund balances are \$7,375,774.
- At five month fiscal period ended September 30, 2013, the District's fund balances reported a combined ending fund balance of \$24,337,059.

### 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 just



like a private sector business.

- The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. 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 to show 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*. 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. But, 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. As a result, 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.

#### **Notes to the Basic Financial Statements**



The notes to the basic financial statements provide additional information that is essential to 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 21-46 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 as well as the funding progress on the District's retirement account.

### 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.

### Government-wide Financial Analysis

Over time, net position serve as a useful indicator of the District's financial position. At September 30, 2013, assets exceeded liabilities by \$67,251,800 of which, 85.05% of total net position are net investment in capital assets, such as land, infrastructure, buildings, machinery and equipment. The District uses these capital assets to provide services to 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.

Exhibit 1  
Laguna Madre Water District  
Governmental Activities - Net Position  
September 30, 2013 and April 2013

	<u>September 2013</u>	<u>April 2013</u>
Current and Other Assets	\$ 26,178,574	\$ 32,916,089
Capital Assets	<u>67,323,987</u>	<u>63,594,788</u>
Total Assets	<u>93,502,561</u>	<u>96,510,877</u>
Long-term Liabilities Outstanding	22,350,894	25,345,858
Current and Other Liabilities	<u>3,899,867</u>	<u>3,454,718</u>
Total Liabilities	<u>26,250,761</u>	<u>28,800,576</u>
Net Position:		
Net Investment in Capital Assets	57,200,351	55,461,345
Restricted	2,681,504	6,402,277
Unrestricted	<u>7,369,945</u>	<u>5,846,679</u>
	<u>\$ 67,251,800</u>	<u>\$ 67,710,301</u>

\$2,681,504 of the net position is subject to external restrictions on how they may be used. The

remaining balances of unrestricted net position, totaling \$7,369,945, may be used to meet the District's ongoing obligations to its citizens and creditors.

The District has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long term obligations, without any reduction in fund balances or net position.

Exhibit 2  
Laguna Madre Water District  
Statement of Activities  
For the Five Month Period Ended September 30, 2013  
and Fiscal Year Ended April 2013

	<u>September 30, 2013</u>	<u>April 2013</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 3,811,646	\$ 8,382,312
General Revenues:		
Property taxes	34,092	2,689,687
Intergovernmental grants	0	297,509
Investment earnings	<u>14,795</u>	<u>86,152</u>
Total Revenue	3,860,533	11,455,660
Expenses:		
Service operations	2,791,806	7,076,321
Interest on long-term debt and fiscal expense	729,576	760,629
Depreciation expense	<u>797,652</u>	<u>1,898,535</u>
Total Expenses	4,319,034	9,735,485
Other Income/Expenses:		
Gain/Loss on sale of assets	0	8,942
Insurance proceeds	<u>0</u>	<u>1,545</u>
Increase in net position	(458,501)	10,487
Net Position, Beginning	<u>67,710,301</u>	<u>65,794,595</u>
Net Position, Ending	<u>\$ 67,251,800</u>	<u>\$ 67,710,301</u>

As indicated in Exhibit 2 charges for services comprised 98.73% and property taxes comprised 0.88% of all revenues.

Service operations comprised 64.64% of all expenses; interest on long-term debt, 16.89%; and depreciation expense, 18.47%.

Program revenue exceeded program revenues by \$1,019,840. The property taxes were collected solely for the payment of principal and interest on the general obligation debt.

## Financial Analysis of the District's Funds

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. Unrestricted fund balance serves as a useful measure of the District's net funds available for spending at the end of the fiscal year. The District's governmental funds combined ending fund balances were \$24,337,059. The unassigned portion is \$3,008,935. Amounts that have been restricted either by external parties or by the District's Board of Directors totals \$20,432,402. An amount designated as non-spendable includes \$895,722.

The General Fund is the largest operating fund for the District. At the end of the five month period ended September 30, 2013, the General Fund had fund balance of \$5,373,468 of which \$2,364,533 was considered non-spendable, restricted or committed. The unassigned fund balance of \$3,008,935 represents 56.0% of Fund balance that can be used for expenditures and transfers out.

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
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	6,284,279	76.0%	87.9%
April 2013	8,738,728	10,335,855	4,697,639	53.8%	45.4%



Exhibit 4  
Laguna Madre Water District  
General Fund  
Statements of Revenues, Expenditures and Changes in Net Position  
For the Five Month Period Ended September 30, 2013  
and Fiscal Year Ended April 2013

	Five Month Period Ended <u>September 2013</u>	Fiscal Year <u>April 2013</u>
<b>REVENUES</b>		
Water Services	\$ 2,251,579	\$ 4,949,734
Wastewater Services	1,459,563	3,218,697
Penalties & Interest	28,115	69,841
Intergovernmental grants	0	297,509
Tap Fees	23,850	102,783
Investment Earnings	2,143	11,661
Miscellaneous	<u>48,539</u>	<u>88,503</u>
<b>TOTAL REVENUES</b>	<u>3,813,789</u>	<u>8,738,728</u>
<b>EXPENDITURES</b>		
Service Operation	2,760,141	6,386,222
Capital Outlay	<u>97,785</u>	<u>691,918</u>
<b>TOTAL EXPENDITURES</b>	<u>2,857,926</u>	<u>7,078,140</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	955,863	1,660,588
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from sale of assets	0	8,942
Proceeds from insurance	0	1,545
Transfer from Other Funds	0	0
Transfer to Other Funds	<u>(280,034)</u>	<u>(3,257,715)</u>
<b>Total Other Financing Sources</b>	<u>(280,034)</u>	<u>(3,247,228)</u>
Net Change in Fund Balances	675,829	(1,586,640)
Fund Balance Beginning, May 1	<u>4,697,639</u>	<u>6,284,279</u>
Fund Balance, September 30	<u>\$ 5,373,468</u>	<u>\$ 4,697,639</u>

Exhibit 5  
Laguna Madre Water District  
Debt Service Fund  
Statements of Revenues, Expenditures and Changes in Net Position  
For the Five Month Period Ended September 30, 2013  
and Fiscal Year Ended April 2013

	Five Month Period Ended September 2013	Fiscal Year April 2013
<b>REVENUES</b>		
Property taxes and penalties	\$ 132,139	\$ 2,872,221
Investment earnings	<u>1,650</u>	<u>17,135</u>
<b>TOTAL REVENUES</b>	<u>133,789</u>	<u>2,889,356</u>
<b>EXPENDITURES</b>		
Debt service		
Bond principal	2,947,945	2,812,000
Bond interest & fiscal agent fees	<u>481,784</u>	<u>1,305,263</u>
<b>TOTAL EXPENDITURES</b>	<u>3,429,729</u>	<u>4,117,263</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,429,729)	(1,227,907)
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfer in	280,034	999,066
Transfer out	0	(22,658)
Premium on bonds issued	<u>0</u>	<u>332,870</u>
Net Other Financing Sources (Uses)	<u>280,034</u>	<u>1,309,278</u>
Net Change in Fund Balances	(3,015,906)	81,371
Fund Balance Beginning, May 1	6,176,471	6,055,349
Prior Period Adjustment	<u>0</u>	<u>39,751</u>
Fund Balance, Beginning as Restated	<u>6,176,471</u>	<u>6,095,100</u>
Fund Balance, at End of Year	<u>\$ 3,160,565</u>	<u>\$ 6,176,471</u>

As shown in Exhibit 5 above, the general bonded debt service fund for the five month period ended September 30, 2013, had a fund balance of \$3,160,565; this amount represented a decrease of \$3,015,906. Part of the decrease was due to paying of the Unlimited Tax Bonds, Series 2003 payable to United States Department of Agriculture in the amount of \$1,057,945. Out of the \$3,160,565, \$2,681,504 is restricted for payment of debt service. The District's ad valorem tax rate for fiscal year 2013 was \$0.080820 per \$100 valuation.

Exhibit 6  
 Laguna Madre Water District  
 Capital Projects Fund  
 Statements of Revenues, Expenditures and Changes in Net Position  
 For the Five Month Period Ended September 30, 2013  
 and Fiscal Year Ended April 2013

	Five Month Period Ended September 30, 2013	Fiscal Year April 2013
<b>REVENUES</b>		
Investment earnings	\$ 9,896	\$ 55,182
<b>TOTAL REVENUES</b>	<u>9,896</u>	<u>55,182</u>
<b>EXPENDITURES</b>		
Capital Outlay	4,448,552	5,074,061
<b>TOTAL EXPENDITURES</b>	<u>4,448,552</u>	<u>5,074,061</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	(4,438,656)	(5,018,879)
<b>OTHER FINANCING SOURCES (USES)</b>		
Bonds issued	0	21,170,000
Transfer in (out)	<u>0</u>	<u>(147,665)</u>
Net Other Financing Sources (Uses)	<u>0</u>	<u>21,022,335</u>
Net Change in Fund Balances	(4,438,656)	16,003,456
Fund Balance Beginning, May 1	<u>18,239,376</u>	<u>2,235,920</u>
Fund Balance, End of Year	<u>\$ 13,800,720</u>	<u>\$ 18,239,376</u>

**Bonds funds for current fiscal year:**

**General Fund Budgetary Highlights**

The original budget for the fiscal year beginning May 1, 2013 to April 30, 2014 was for \$8,238,856. Since the fiscal year end was changed from April 30 to September 30 this fiscal year consisted of only five (5) months. Therefore the budget was changed as follows:

- Total revenues were decreased by \$4,538,932;
- Decreased water revenues by \$2,539,988;

- Decreased sewer revenues by \$1,716,970;
- Decrease in penalty/interest revenue by \$37,635;
- Decreased miscellaneous revenue by \$5,685;

Also during the fiscal year, the District amended its General Fund budgeted expenditures. The major expenditure budget amendments were:

- Total expenditures were decreased by \$4,789,783;
- Decreased contracted services by \$68,203;
- Decreased payroll and benefits by \$2,375,829;
- Decrease materials and supplies by \$425,058;
- Decreased repairs and maintenance by \$261,362;
- Decreased capital outlay by \$659,163;

Differences between the original budget and the final amended budget are shown on page 47.

### **Capital Asset and Debt Administration**

The District's net investment in capital assets for its governmental activities as shown in Exhibit 7 as of September 30, 2013, amounts to \$67,323,987. The net change in capital assets from the fiscal year ended April 30, 2013 was \$3,729,199.

#### **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 still under construction at a cumulative cost of \$4,783,741.
- Cuates Pump Station in Los Fresnos is under construction at a cumulative cost of \$3,468,040.
- Laguna Vista Wastewater Plant Reuse Project was under construction at year end at a cumulative cost of \$975,752.
- Year to date expense on Lift station #11 totaled \$504,757.

The depreciation expense for the five month period ending September 30<sup>th</sup> for the governmental activities totaled \$797,652.



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

	<u>September 30, 2013</u>		<u>April 30, 2013</u>
Land	\$ 1,251,714	\$	1,251,714
Construction in progress	11,513,770		7,065,217
Building and improvements	1,325,801		1,344,036
Improvements other than buildings	169,580		175,780
Machinery and equipment	588,497		560,431
Infrastructure	<u>52,474,625</u>		<u>53,197,610</u>
Total	<u>\$ 67,323,987</u>	<u>\$</u>	<u>63,594,788</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, 2013, the District's total bonded debt was \$24,250,000. Of this amount, \$17,425,000 is considered to be tax supported debt and \$6,825,000 are considered revenue notes.

Exhibit 8 shows the District's outstanding long-term debt as of September 30, 2013.

Additional information on the District's long-term debt can be found in Note 7 on pages 38-39 of this report.

Exhibit 8  
Laguna Madre Water District  
Long Term Liabilities

	<u>September 30, 2013</u>		<u>April 30, 2013</u>
General Obligation bonds	\$ 17,425,000	\$	20,349,000
Revenue Bonds/Revenue Note	6,825,000		6,825,000
Plus: Unamortized Premium	<u>383,740</u>		<u>383,740</u>
Total Bonds Payable	24,633,740		27,557,740
Pension liability	<u>80,154</u>		<u>76,118</u>
Total other long-term liabilities	<u>80,154</u>		<u>76,118</u>
	<u>\$ 24,713,894</u>	<u>\$</u>	<u>27,633,858</u>



## Bond Ratings

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

	<u>Moody's Investors Service</u>	<u>Standard &amp; 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  
Robert Gomez, Finance Director  
105 Port Road  
Port Isabel, Texas 78578

Phone Number: (956)943-2626  
Fax Number: (956)943-6662  
E-mail: [rgomez@lmwd.org](mailto:rgomez@lmwd.org)  
Web Page: [lmwd.org](http://lmwd.org)

This page intentionally left blank.

**BASIC FINANCIAL STATEMENTS**



**LAGUNA MADRE WATER DISTRICT**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
September 30, 2013

	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,069,204	\$ -	\$ -	\$ -	\$ 2,069,204	\$ -	\$ 2,069,204
Investments	502,862	-	-	-	502,862	-	502,862
Receivables, (net):							
Interest	-	-	-	-	-	-	-
Taxes	-	-	310,489	-	310,489	-	310,489
Accounts	646,673	-	-	-	646,673	-	646,673
Miscellaneous	37,907	-	-	-	37,907	-	37,907
Internal receivables	494,801	-	50,000	-	544,801	(544,801)	-
Inventories	337,485	-	-	-	337,485	-	337,485
Prepaid items	108,629	-	-	-	108,629	-	108,629
Restricted assets:							
Cash and cash equivalents	216,793	2,002,306	1,156,298	13,501,843	16,877,240	-	16,877,240
Cash with fiscal agent	-	-	-	-	-	-	-
Investments	1,701,625	-	2,113,284	1,016,648	4,831,577	-	4,831,577
Capital assets not being depreciated:							
Land	-	-	-	-	-	1,251,714	1,251,714
Construction in progress	-	-	-	-	-	11,513,770	11,513,770
Capital assets net of accumulated depreciation:							
Buildings and improvements	-	-	-	-	-	1,325,801	1,325,801
Improvements other than buildings	-	-	-	-	-	169,580	169,580
Personal property	-	-	-	-	-	588,497	588,497
Infrastructure	-	-	-	-	-	52,474,625	52,474,625
Bond issue costs and other assets	-	-	-	-	-	456,508	456,508
<b>Total Assets</b>	<b>6,115,979</b>	<b>2,002,306</b>	<b>3,630,071</b>	<b>14,518,511</b>	<b>26,266,867</b>	<b>67,235,694</b>	<b>93,302,361</b>
<b>LIABILITIES</b>							
Accounts payable	299,310	-	-	372,990	672,300	-	672,300
Accrued payroll	51,348	-	-	-	51,348	-	51,348
Accrued interest	-	-	-	-	-	402,405	402,405
Internal payables	-	-	200,000	344,801	544,801	(544,801)	-
Deferred tax revenue	-	-	269,306	-	269,306	(250,545)	18,961
Liabilities payable from restricted assets	391,853	-	-	-	391,853	-	391,853
Long-term liabilities:							
Due within one year	-	-	-	-	-	2,363,000	2,363,000
Due in more than one year	-	-	-	-	-	22,350,894	22,350,894
<b>Total Liabilities</b>	<b>742,511</b>	<b>-</b>	<b>469,306</b>	<b>717,791</b>	<b>1,929,808</b>	<b>24,320,953</b>	<b>26,250,761</b>
<b>FUND BALANCE/NET POSITION</b>							
<b>Fund balances:</b>							
<b>Non-spendable:</b>							
Prepaid items	108,629	-	-	-	108,629	(108,629)	-
Inventories	337,485	-	-	-	337,485	(337,485)	-
Meter deposits	449,608	-	-	-	449,608	(449,608)	-
<b>Restricted:</b>							
Debt service	-	-	3,160,365	-	3,160,365	(3,160,365)	-
Capital projects	-	-	-	13,800,720	13,800,720	(13,800,720)	-
<b>Committed:</b>							
Capital projects	1,411,922	-	-	-	1,411,922	(1,411,922)	-
Annexation	32,800	-	-	-	32,800	(32,800)	-
Sale of land	24,089	-	-	-	24,089	(24,089)	-
Emergency reserve	-	2,002,306	-	-	2,002,306	(2,002,306)	-
Unassigned	3,008,935	-	-	-	3,008,935	(3,008,935)	-
<b>Total fund balances</b>	<b>5,373,468</b>	<b>2,002,306</b>	<b>3,160,365</b>	<b>13,800,720</b>	<b>24,337,059</b>	<b>(24,337,059)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,115,979</b>	<b>\$ 2,002,306</b>	<b>\$ 3,630,071</b>	<b>\$ 14,518,511</b>	<b>\$ 26,266,867</b>	<b>\$ (16,106)</b>	<b>\$ 26,250,761</b>
<b>Net Position (Government-wide):</b>							
Net investment in capital assets						57,200,351	57,200,351
<b>Restricted for:</b>							
Debt service						2,681,504	2,681,504
Other purposes						-	-
Unrestricted						7,369,945	7,369,945
<b>Total net position</b>						<b>\$ 67,251,800</b>	<b>\$ 67,251,800</b>

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 Net Position**  
**For the Five Month Period Ended September 30, 2013**

	General Fund	Emergency Preparation and Recovery Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>							
Water services	2,251,579	\$ -	\$ -	\$ -	\$ 2,251,579	\$ -	\$ 2,251,579
Wastewater services	1,459,563	-	-	-	1,459,563	-	1,459,563
Property taxes	-	-	98,278	-	98,278	(98,047)	231
Penalties and interest	28,115	-	33,861	-	61,976	-	61,976
Intergovernmental	-	-	-	-	-	-	-
Tap fees	23,850	-	-	-	23,850	-	23,850
Investment earnings	2,143	1,106	1,650	9,896	14,795	-	14,795
Miscellaneous	48,539	-	-	-	48,539	-	48,539
Total revenues	<u>3,813,789</u>	<u>1,106</u>	<u>133,789</u>	<u>9,896</u>	<u>3,958,580</u>	<u>(98,047)</u>	<u>3,860,533</u>
<b>Expenditures:</b>							
Service operations:							
Professional fees	130,587	-	-	-	130,587	-	130,587
Payroll and benefits	1,483,380	-	-	-	1,483,380	4,036	1,487,416
Utilities	487,287	-	-	-	487,287	-	487,287
Materials and supplies	450,425	-	-	-	450,425	-	450,425
Repairs and maintenance	140,593	-	-	-	140,593	-	140,593
Other	67,869	-	-	-	67,869	-	67,869
Capital outlay	97,785	-	-	4,448,552	4,546,337	(4,526,851)	19,486
Debt service:							
Principal	-	-	2,947,945	-	2,947,945	(2,947,945)	-
Interest and fiscal charges	-	-	473,641	-	473,641	255,935	729,576
Contracted service	-	-	8,143	-	8,143	-	8,143
Bond issuance costs	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	797,652	797,652
Total expenditures	<u>2,857,926</u>	<u>-</u>	<u>3,429,729</u>	<u>4,448,552</u>	<u>10,736,207</u>	<u>(6,417,173)</u>	<u>4,319,034</u>
Excess (deficiency) of revenues over expenditures	955,863	1,106	(3,295,940)	(4,438,656)	(6,777,627)	6,319,126	(458,501)
<b>Other financing sources/(uses):</b>							
Bonds issued	-	-	-	-	-	-	-
Premium on bonds issued	-	-	-	-	-	-	-
Proceeds from insurance	-	-	-	-	-	-	-
Gain or loss on sale of assets	-	-	-	-	-	-	-
Transfers in	-	-	280,034	-	280,034	(280,034)	-
Transfers Out	(280,034)	-	-	-	(280,034)	280,034	-
Net other financing sources/(uses)	<u>(280,034)</u>	<u>-</u>	<u>280,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	675,829	1,106	(3,015,906)	(4,438,656)	(6,777,627)	6,777,627	(458,501)
Change in net position						(458,501)	(458,501)
<b>Fund balance/net position:</b>							
Beginning of the year	4,697,639	2,001,200	6,176,471	18,239,376	31,114,686	36,595,615	67,710,301
End of the year	<u>\$ 5,373,468</u>	<u>\$ 2,002,306</u>	<u>\$ 3,160,565</u>	<u>\$ 13,800,720</u>	<u>\$ 24,337,059</u>	<u>\$ 42,914,741</u>	<u>\$ 67,251,800</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, 2013

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. During the year, the District has implemented the requirements of GASB Statement No. 63. However, the District does not have any items that would qualify as deferred inflows or outflows as defined in these statements.

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

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, 2013

**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. 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 required to be 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.

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, 2013

**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, 2013

**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. Encumbrances do not lapse at the close of the fiscal year but are carried forward as assigned fund balance until liquidated.

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.

The District has positions in TexPool, the Texas Local Government Investment Pool. In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-



LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Investments - Continued

like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State of Texas Comptroller of Public Accounts, although it is not registered with the SEC.

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

LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Capital Assets - Continued

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 \$797,652.

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 2003 and 2005 tax bonds and the 2007 revenue bond issuances. Interest and Sinking accounts are used to segregate resources accumulated for debt service payments over the next twelve months for the 2003 and 2005 tax bonds, and the 2007 revenue note.

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

Cash	\$ 1,156,298
Investments	2,113,284
	\$ 3,269,582

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

Cash	\$ 13,501,843
Investments	1,016,668
	\$ 14,518,511

LAGUNA MADRE WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

*Deferred and Unearned Revenues*

Deferred revenues in the governmental funds represent amounts due, which are measurable, but not available. In the statement of net position, deferred revenues represent the deferral of property tax receivables which are deferred until measurable and available to pay for current expenses.

*Net Position Flow Assumption*

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*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,



LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Property Taxes

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

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 nonvesting 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 \$80,154 of accumulated vacation leave which is recognized as a long-term liability.

LAGUNA MADRE WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

*Bond Discounts/Issuance Costs*

In governmental fund types, bond discounts and issuance costs are recognized in the current period.

*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.

*Deferred Compensation Plan - Continued*

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.

*Date of Management Review*

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 6, 2014, the date the financial statements were available to be issued.

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

**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 \$67,232,987 are as follows:

Land	\$	1,251,714
Construction in progress		11,513,770
Buildings and improvements, net		1,325,801
Improvements other than buildings, net		169,580
Personal property with UAC >\$5,000, net		588,497
Infrastructure, net		<u>52,474,625</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	<u>67,323,987</u>

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 \$25,572,807 difference are as follows:

General obligation bonds payable	\$	17,425,000
Revenue bonds payable		6,825,000
Accrued interest payable		402,405
Accrued vacation		80,154
Deferred charge for issuance costs (to be amortized over life of debt)		(456,508) ✓
Unamortized premiums (to be amortized as interest expense)		<u>383,740</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$	<u>24,659,791</u>



LAGUNA MADRE WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2013

**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 position 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 \$3,729,199 difference are as follows:

Capital outlay	\$ 4,526,851
Depreciation expense	<u>(797,652)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 3,729,199</u>

This space intentionally left blank.

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

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

Another element of that reconciliation 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 is the net effect of these differences in the treatment of long-term debt and related items.” The details of the (\$2,924,000) difference are as follows:

Principal repayments:

General obligation bonds	<u>\$ (2,924,000)</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>\$ (2,924,000)</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.

LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 3 – LEGAL COMPLIANCE – (Continued)**

*Budget – Continued*

3. The original amount appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriate budget resolutions by the Board of Directors. The original annual appropriated budgets are adopted by resolution by the Board of Directors prior to the beginning of the fiscal year as required by state law. The final annual amended appropriate budgets are shown in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.
4. The General Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that after the overall total of appropriated expenditures of any fund must be approved by the Board of Directors. During the year, the budget was amended 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 accrual 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, 2013 are classified in the accompanying financial statements as follows:

Unrestricted - cash and investments	\$ 2,572,066
Restricted assets - cash and investments	<u>21,708,817</u>
 Total	 <u>\$ 24,280,883</u>



LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

Deposits and investments as of September 30, 2013 consist of the following:

Deposits with financial institutions	\$ 24,280,883
Deposits with local government investment pools	<u>44,424</u>
Total	<u>\$ 24,325,307</u>

*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.

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

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



LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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

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

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. 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, 2013, the District's market value of pledged securities was \$30,473,971 and the bank deposits were \$24,325,670. The bank balances as of September 30, 2013 were fully insured by FDIC coverage and collateral pledged by financial institution.

NOTE 5 – RECEIVABLES

Receivables at September 30, 2013 including the applicable allowance for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Total
Accrual	\$ 114,136	\$ -	\$ -	\$ 114,136
Taxes	-	326,126	-	326,126
Accounts	540,901	-	-	540,901
Miscellaneous	37,907	-	-	37,907
Gross receivable	<u>692,944</u>	<u>326,126</u>	<u>-</u>	<u>1,019,070</u>
Less allowance for uncollectible	<u>(8,364)</u>	<u>(15,637)</u>	<u>-</u>	<u>(24,001)</u>
Net total receivables	<u>\$ 684,580</u>	<u>\$ 310,489</u>	<u>\$ -</u>	<u>\$ 995,069</u>

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013 was as follows:

	Balance 4/30/12	Additions	Retire- ments	Reclass	Balance 9/30/13
<b>Governmental Activities:</b>					
<i>Capital assets, not depreciated:</i>					
Land and easements	\$ 1,251,714	\$ -	\$ -	\$ -	\$ 1,251,714
Construction in progress	7,065,218	4,448,553	-	-	11,513,771
Total capital assets, not depreciated	<u>8,316,932</u>	<u>4,448,553</u>	<u>-</u>	<u>-</u>	<u>12,765,485</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	2,010,342	2,687	-	-	2,013,029
Improvements other than buildings	410,753	-	-	-	410,753
Personal property, UAC = > \$5,000	1,871,438	75,611	-	-	1,947,049
Infrastructure	88,463,963	-	-	-	88,463,963
Total capital assets, depreciated	<u>92,756,496</u>	<u>78,298</u>	<u>-</u>	<u>-</u>	<u>92,834,794</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(666,307)	(20,923)	-	-	(687,230)
Improvements other than buildings	(234,973)	(6,200)	-	-	(241,173)
Personal property, UAC = > \$5,000	(1,311,007)	(47,544)	-	-	(1,358,551)
Infrastructure	(35,266,353)	(722,985)	-	-	(35,989,338)
Total accumulated depreciation	<u>(37,478,640)</u>	<u>(797,652)</u>	<u>-</u>	<u>-</u>	<u>(38,276,292)</u>
<b>Total capital assets, being depreciated, net</b>	<u>55,277,856</u>	<u>(719,354)</u>	<u>-</u>	<u>-</u>	<u>54,558,502</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 63,594,788</u>	<u>\$ 3,729,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,323,987</u>

LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 7 – LONG-TERM DEBT**

	April 30, 2013	Additions	Reductions	September 30 2013	Due Within One Year
General Obligation Tax Bonds	\$ 20,349,000	\$ -	\$ 2,924,000	\$ 17,425,000	\$ 1,978,000
Revenue Bonds	6,825,000	-		6,825,000	370,000
Compensated Absences	76,118	4,036		80,154	-
	<u>27,250,118</u>	<u>4,036</u>	<u>2,924,000</u>	<u>24,330,154</u>	<u>2,348,000</u>
Plus: unamortized premium	383,740	-	-	383,740	-
	<u>\$ 27,633,858</u>	<u>\$ 4,036</u>	<u>\$ 2,924,000</u>	<u>\$ 24,713,894</u>	<u>\$ 2,348,000</u>

The debt service fund makes the payments on the bonds payable. The compensated absences are liquidated by the general fund.

General Obligation Bonds

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, except for refunding issues, with equal amount of principal maturing each year. The District currently has three general obligation tax bond issues outstanding.

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.



LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 7 – LONG-TERM DEBT – CONTINUED**

Bond Issue	Interest Rate	Balance at September 30, 2013
\$650,000 Unlimited Tax Bonds, Series 2005. Issued December 12, 2005. Maturity date December 1, 2045.	4.25%	575,000
\$21,170,000 Unlimited Tax Bonds, Series 2012. Issued May 15, 2012. Maturity date June 1, 2032.	2% - 5%	<u>16,850,000</u>
Total General Obligation Tax Bonds		<u>17,425,000</u>
\$9,815,000 Waterworks and Sewer System Revenue Notes, Series 2007. Issued March 8, 2007. Maturity date March 1, 2027.	4% - 5%	<u>6,825,000</u>
Total Revenue Bonds		<u>6,825,000</u>
Total General Obligation and Revenue Bonds		<u>\$ 24,250,000</u>

On December 19, 2003, the District issued \$1,163,000 Unlimited Tax Bonds, Series 2003 for the purpose of acquisition and construction of the Wastewater Treatment Plant project. Any costs of the project not financed out of the original or investment proceeds of the bonds will be financed by the District.

On December 12, 2005, the District issued \$650,000 Unlimited Tax Bonds, Series 2005 for the rehab of Water Plants 1 & 2 to serve the area under the District's jurisdiction. The United States of America acting through the Rural Utilities Service (the "RUS") from the Department of Agriculture entered into a Utility Loan (Bond Secured) in the principal amount of \$650,000 with the District to finance the project. The terms of the loan required the District to place the bonds in escrow with a local bank in the total amount of the loan, such bonds to be held in escrow and delivery of the bonds to be made to the RUS in such amounts as may be purchased by the RUS from time to time. The total cost of the project is \$3,410,000 of which \$650,000 will be financed, \$1,785,000 is committed from District funds, and \$975,000 will represent a grant from the RUS.



LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 7 – LONG-TERM DEBT – CONTINUED**

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.

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.

Annual debt service requirements to maturity for general obligation bond issuances, including interest are as follows:

Year Ended September 30	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 370,000	\$ 302,081	\$ 1,918,000	\$ 666,006
2015	385,000	287,281	1,978,000	626,931
2016	400,000	271,881	674,000	567,157
2017	415,000	255,881	685,000	552,935
2018	430,000	239,281	701,000	538,465
2019 - 2023	2,440,000	909,975	3,805,000	2,391,639
2024 - 2028	2,385,000	302,475	4,466,000	1,718,972
2029 - 2033	-	-	5,324,000	860,565
2034 - 2038	-	-	331,000	152,435
2039 - 2043	-	-	407,000	70,200
2044 - 2048	-	-	60,000	3,825
<b>Total</b>	<b>\$ 6,825,000</b>	<b>\$ 2,568,855</b>	<b>\$ 20,349,000</b>	<b>\$ 8,149,130</b>

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

**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. Plan Description*

The Laguna Madre Water District provides retirement, disability, and death benefits for all of its full time employees through a nontraditional, defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer retirement system consisting of 517 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with 8 or more years of service. 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.

LAGUNA MADRE WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2013

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

Benefit amounts are determined by the sum of the employee's 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 benefits are calculated by converting the sum of annuity purchase rates prescribed by the TCDRS Act.

*b. Funding Policy*

The employer has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the 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. The employer contributed using the actuarially determined rate of 13.47% for the months of the plan year 2012, and 12.32% for the months of the plan year 2011.

The contribution rate payable by the employee members for the calendar year 2012 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

*c. Annual Pension Cost*

For the five month period ended September 30, 2013, the District's pension cost of \$148,423 for the plan was equal to the District's required actuarial contribution. The annual required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2012 was 20 years.



LAGUNA MADRE WATER DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

Actuarial valuation date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	20 years	20 years	20 years
Asset valuation method	SAF: 10-year smoothed value ESF: fund value	SAF: 10-year smoothed value ESF: fund value	SAF: 10-year smoothed value ESF: fund value
Actuarial assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.40%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

\* - Includes inflation at the stated rate.

**Trend Information for the Retirement Plan  
for the Employees of the Laguna Madre Water District**

Accounting Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
4/30/2011	\$ 293,378	100%	\$ -
4/30/2012	\$ 291,999	100%	\$ -
4/30/2013	\$ 309,318	100%	\$ -



LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

**NOTE 9- EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

*d. Funding Status and Funding Progress*

As of December 31, 2012, the most recent actuarial valuation date, the plan was 76.05% funded. The actuarial accrued liability for benefits was \$7,692,703, and the actuarial value of assets was \$5,850,107, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,842,596. The covered payroll (annual payroll of active employees covered by the plan) was \$2,296,351, and the ratio of the UAAL to the covered payroll was 80.24%.

The schedule of funding progress, presented below and as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (Actuarial)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$ 5,232,867	\$ 6,694,927	\$ 1,462,060	78.16%	\$ 2,306,320	63.39%
12/31/11	\$ 5,462,382	\$ 7,119,934	\$ 1,657,552	76.72%	\$ 2,167,776	76.46%
12/31/12	\$ 5,850,107	\$ 7,692,703	\$ 1,842,596	76.05%	\$ 2,296,351	80.24%

**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, 2013, employees of the District were covered by a health, dental, and life insurance plan (the "Plan"). The District paid premiums of \$453.73 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

LAGUNA MADRE WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

**NOTE 10 – RISK MANAGEMENT – CONTINUED**

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.

**NOTE 11 – INTERFUND ACTIVITY**

Inter-fund Receivable and Payable – The comparison of the inter-fund balance as of September 30, 2013, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 494,801
Debt service	Capital Projects	50,000
		<u>\$ 544,801</u>

Transfer In/Out:

	<u>Transfer in:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Emergency Fund</u>	
Transfer out:					
General fund	\$ -	\$ -			\$ -
Debt service	280,034		-	-	280,034
Capital projects		-	-	-	-
	<u>\$ 280,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,034</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, 2013

**NOTE 12 – AUTHORIZED, ISSUED AND OUTSTANDING DEBT**

On May 14, 2011, voters in the Laguna Madre Water District approved two propositions for issuing new bonds. At September 30, 2013, 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 13 – MAJOR CONSTRUCTION COMMITMENTS**

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

<b><u>Project:</u></b>	<b><u>Amount committed:</u></b>
Laguna Vista WWTP Water Reuse	\$ 89,792
Water & Wastewater Lines Replacements	504,636
Lift Station 19 expansion	859,910
Cuates Pump Station and pipeline	1,428,550
Water Plant 2 Microfiltration Improvements	1,581,737
	4,464,625

**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 Five Month Period Ended September 30, 2013

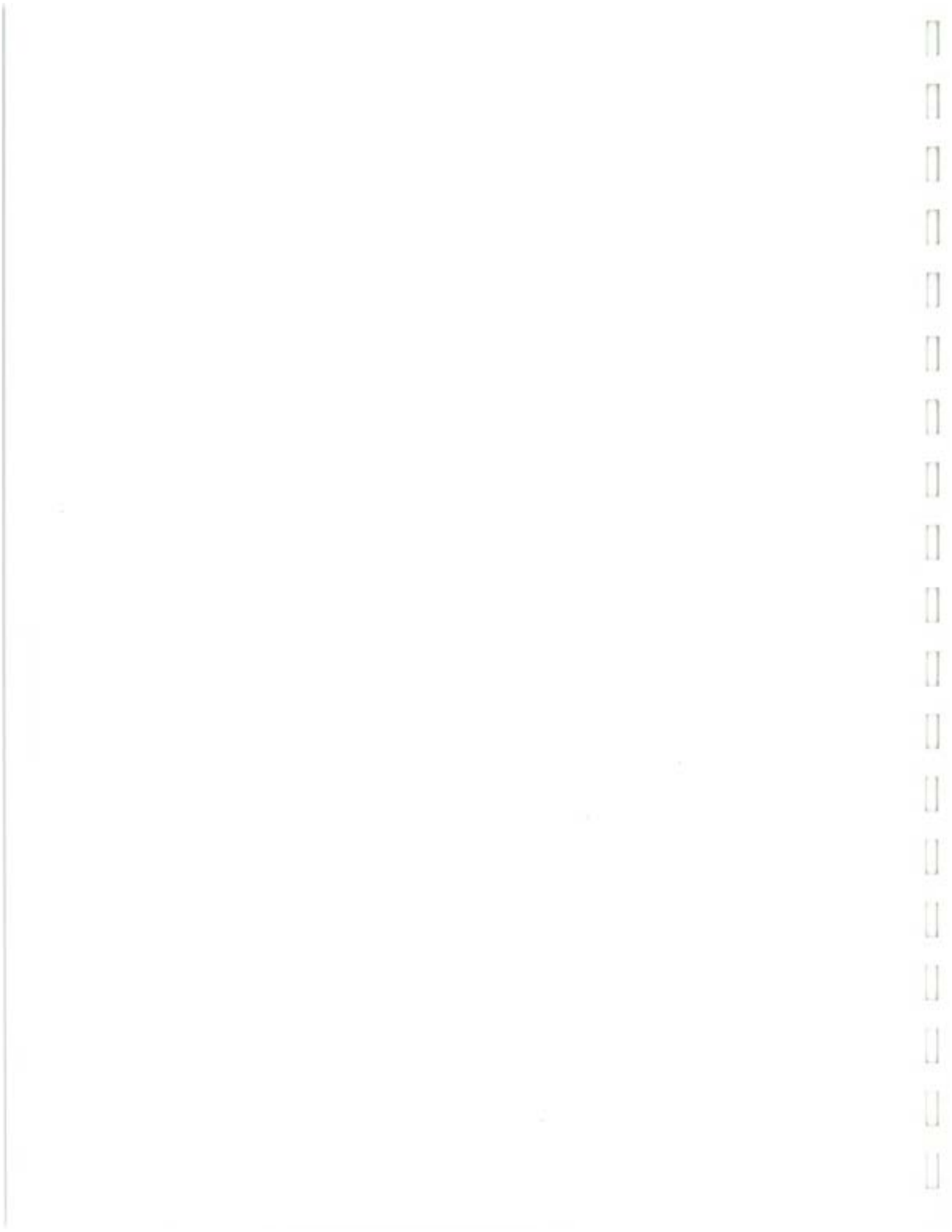
	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenues:</b>				
Water services	\$ 1,977,934	\$ 1,977,934	\$ 2,251,579	\$ 273,645
Wastewater services	1,323,555	1,323,555	1,459,563	136,008
Penalties and interest	27,396	27,396	28,115	719
Tap fees	40,252	40,252	23,850	(16,402)
Investment earnings	4,890	4,890	2,143	(2,747)
Miscellaneous	58,846	58,846	48,539	(10,307)
Total revenues	<u>3,432,873</u>	<u>3,432,873</u>	<u>3,813,789</u>	<u>380,916</u>
<b>Expenditures:</b>				
<b>Service operations:</b>				
Professional fees	210,352	210,352	130,587	79,765
Payroll and benefits	1,460,449	1,460,449	1,483,380	(22,931)
Utilities	488,102	488,102	487,287	815
Materials and supplies	483,476	483,476	450,425	33,051
Repairs and maintenance	183,537	183,537	140,593	42,944
Other	177,228	177,228	67,869	109,359
<b>Capital outlay</b>	145,189	145,189	97,785	47,404
Total expenditures	<u>3,148,333</u>	<u>3,148,333</u>	<u>2,857,926</u>	<u>290,407</u>
Excess (deficiency) of revenues over expenditures	284,540	284,540	955,863	671,323
Other financing sources/uses:				
Transfers-internal activities	<u>(280,034)</u>	<u>(280,034)</u>	<u>(280,034)</u>	<u>-</u>
Net other financing sources/uses	<u>(280,034)</u>	<u>(280,034)</u>	<u>(280,034)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 4,506	\$ 4,506	\$ 675,829	\$ 671,324
<b>Fund balance:</b>				
Beginning of the year			<u>4,697,639</u>	
End of the year			<u>\$ 5,373,468</u>	

**LAGUNA MADRE WATER DISTRICT**  
Texas County and District Retirement Systems  
Schedule of Funding Progress  
September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (actuarial) (c)	UAAL as a Percentage of Covered Payroll ( (b-a)/c)
12/31/2010	5,232,867	6,694,927	1,462,060	78.16%	2,306,320	63.39%
12/31/2011	5,462,382	7,119,934	1,657,552	76.72%	2,167,776	76.46%
12/31/2012	5,850,107	7,692,703	1,842,596	76.05%	2,296,351	80.24%



**SUPPLEMENTARY INFORMATION**



**LAGUNA MADRE WATER DISTRICT**

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Five Month Period Ended September 30, 2013

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 58,603	\$ 58,603	\$ 98,278	\$ 39,675
Penalties and interest	32,272	32,272	33,861	1,589
Investment earnings	1,650	1,650	1,650	-
Total revenues	<u>92,525</u>	<u>92,525</u>	<u>133,789</u>	<u>41,264</u>
<b>Expenditures:</b>				
<b>Debt service:</b>				
Principal	2,947,945	2,947,945	2,947,945	-
Interest	473,641	473,641	473,641	-
Contracted service	8,360	8,360	8,143	217
Total expenditures	<u>3,429,946</u>	<u>3,429,946</u>	<u>3,429,729</u>	<u>217</u>
Excess (deficiency) of revenues over expenditures	(3,337,421)	(3,337,421)	(3,295,940)	41,481
Other financing sources/uses:				
Transfers-internal activities	280,034	280,034	280,034	-
Net other financing sources/uses	<u>280,034</u>	<u>280,034</u>	<u>280,034</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (3,057,387)	\$ (3,057,387)	(3,015,906)	\$ 41,481
<b>Fund balance:</b>				
Beginning of the year			<u>6,176,471</u>	
End of the year			<u>\$ 3,160,565</u>	

**This page intentionally left blank.**



**TEXAS SUPPLEMENTARY  
INFORMATION (TSI) SECTION**



LAGUNA MADRE WATER DISTRICT

NOTES REQUIRED BY THE WATER DISTRICT ACCOUNTING MANUAL  
SEPTEMBER 30, 2013

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, 2013

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, 2013

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active Factor
5/8"	4,865	4,659	-	-
1"	1,110	1,079	-	-
2"	340	300	-	-
4"	85	81	-	-
6"	85	85	-	-
8"	3	3	-	-
10"	1	1	-	-
18"	1	1	-	-
Total water:	6,490	6,209	-	-
Total wastewater:	5,401	5,350	-	-

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

Gallons pumped into system:	<u>667,050,000</u>
Gallons billed to customer:	<u>617,385,800</u>
Water accountability ratio (Gallons billed/gallons pumped):	<u>91.19%</u>

4. Location of the District:

County in which District is located: Cameron  
 Is the District located entirely within one county? Yes  
 Is the District located within a city? No  
 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 Five Month Period Ended Sept 30, 2013

<b>CURRENT</b>	
<b>Personnel (including benefits)</b>	\$ 1,483,380
<b>Professional Fees:</b>	
Auditing	17,000
Legal	10,431
Engineering	74,946
Financial Advisor/Consultants	13,835
Computer Training	14,375
<b>Purchased Services For Resale:</b>	
Bulk Water & Wastewater Service Purchases	-
<b>Contracted Services:</b>	
General Manager	-
Appraisal District	-
Tax Collector	-
Other Contracted Services	-
<b>Utilities</b>	487,287
<b>Repairs and Maintenance</b>	140,593
<b>Administrative Expenditures:</b>	
Directors' Fees	-
Office Supplies	22,541
Property Insurance	45,328
Other Administrative Expenditures	-
<b>Capital Outlay:</b>	
Capital Assets	78,299
Expenditures not Capitalized	19,486
<b>Solid Waste Disposal</b>	-
<b>Materials and Supplies</b>	450,425
<b>Other Expenditures</b>	
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,857,926</u>

Number of persons employed by the District: 74 Full-Time

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 3. TEMPORARY INVESTMENTS**  
 Sept 30, 2013

<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>
<b>General Fund</b>				
CD's - IBC	Various	Variable	N/A	\$ 1,689,484
TexPool	312000015	Variable	N/A	2,205
TexPool	312000014	Variable	N/A	9,936
				<u>1,701,625</u>
<b>Debt Service Fund</b>				
TexPool	312000013	Variable	N/A	32,283
CD's - IBC	Various	Variable	N/A	1,446,001
				<u>1,478,284</u>
<b>Capital Projects Fund</b>				
CD's - IBC	Various	Variable	N/A	1,000,000
TexPool	312000017	Variable	N/A	10,303
TexPool	312000002	Variable	N/A	6,365
				<u>1,016,668</u>
<b>Total - All Funds</b>				<u><u>\$ 4,196,577</u></u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 4. TAXES LEVIED AND RECEIVABLE**  
September 30, 2013

	<b>Debt Service Taxes</b>
<b>Taxes Receivable:</b>	
Beginning of Year	470,708
2012 Original Tax Levy	2,697,794
Abatements/Adjustments:	(37,731)
Total to be accounted for	3,130,771
 <b>Tax collections:</b>	
Current year	168,867
Prior year	2,665,851
Less: 60-day accrual	(16,695)
Total collections	2,818,023
 <b>Taxes Receivable, End of Year</b>	<b>\$ 312,748</b>
 <b>Taxes Receivable, By Years</b>	
Prior years	50,722
Current year - 2012	262,026
Taxes Receivable, End of Year	<b>\$ 312,748</b>

<b>Property Valuations:</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Land	\$ 1,389,377,930	\$ 1,266,907,616	\$ 1,204,257,649	1,206,060,309
Improvements	2,073,422,214	2,222,138,988	2,213,604,065	2,211,527,422
Personal Property	89,924,938	86,978,357	92,127,707	92,228,359
Total property				
Valuations	\$ 3,552,725,082	\$ 3,576,024,961	\$ 3,509,989,421	3,509,816,090
 <b>Tax Rates Per \$100 Valuation:</b>				
Debt service tax rate	\$0.080820	\$0.080820	\$0.080820	\$0.08082
 <b>Original Tax Levy:</b>	<b>\$ 2,697,794</b>	<b>\$ 2,694,929</b>	<b>\$ 2,645,970</b>	<b>\$ 2,524,399</b>
 <b>Percent of Taxes Collected to Taxes Levied</b>	<b>6.26%</b>	<b>92.80%</b>	<b>91.63%</b>	<b>92.94%</b>



**LAGUNA MADRE WATER DISTRICT**  
**TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
September 30, 2013

Due During Fiscal Year Ending	Unlimited Tax Bonds, Series 2005		
	Principal Due March 1,	Interest Due March 1 & Sept 1	Total
2014	\$ 10,000	\$ 24,438	\$ 34,438
2015	10,000	24,013	34,013
2016	10,000	23,588	33,588
2017	10,000	23,163	33,163
2018	10,000	22,737	32,737
2019	10,000	22,313	32,313
2020	10,000	21,887	31,887
2021	10,000	21,463	31,463
2022	10,000	21,038	31,038
2023	15,000	20,612	35,612
2024	15,000	19,975	34,975
2025	15,000	19,338	34,338
2026	15,000	18,700	33,700
2027	15,000	18,063	33,063
2028	15,000	17,425	32,425
2029	15,000	16,787	31,787
2030	15,000	16,150	31,150
2031	20,000	15,513	35,513
2032	20,000	14,663	34,663
2033	20,000	13,813	33,813
2034	20,000	12,962	32,962
2035	20,000	12,112	32,112
2036	20,000	11,263	31,263
2037	25,000	10,413	35,413
2038	25,000	9,350	34,350
2039	25,000	8,287	33,287
2040	25,000	7,225	32,225
2041	25,000	6,163	31,163
2042	30,000	5,100	35,100
2043	30,000	3,825	33,825
2044	30,000	2,550	32,550
2045	30,000	1,275	31,275
	<u>\$ 575,000</u>	<u>\$ 486,204</u>	<u>\$ 1,061,204</u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
September 30, 2013

Due During Fiscal Year Ending	Waterworks and Sewer System Revenue Notes, Series 2007		
	Principal	Interest Due	Total
	Due March 1,	March 1 & Sept 1	
2014	\$ 370,000	\$ 24,438	\$ 394,438
2015	385,000	24,013	409,013
2016	400,000	23,588	423,588
2017	415,000	23,163	438,163
2018	430,000	22,737	452,737
2019	450,000	22,313	472,313
2020	465,000	21,887	486,887
2021	485,000	21,463	506,463
2022	510,000	21,038	531,038
2023	530,000	20,612	550,612
2024	555,000	19,975	574,975
2025	580,000	19,338	599,338
2026	610,000	18,700	628,700
2027	640,000	18,063	658,063
	<u>\$ 6,825,000</u>	<u>\$ 301,328</u>	<u>\$ 7,126,328</u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
September 30, 2013

Due During Fiscal Year Ending	Unlimited Tax Bonds, Series 2012		
	Principal Due March 1,	Interest Due March 1 & Sept 1	Total
2015	1,950,000	554,963	2,504,963
2016	645,000	496,463	1,141,463
2017	655,000	483,563	1,138,563
2018	670,000	470,463	1,140,463
2019	685,000	457,063	1,142,063
2020	705,000	436,513	1,141,513
2021	725,000	415,363	1,140,363
2022	745,000	393,613	1,138,613
2023	770,000	371,263	1,141,263
2024	800,000	340,463	1,140,463
2025	820,000	316,463	1,136,463
2026	845,000	290,838	1,135,838
2027	875,000	263,375	1,138,375
2028	905,000	234,500	1,139,500
2029	935,000	203,956	1,138,956
2030	965,000	171,231	1,136,231
2031	1,005,000	136,250	1,141,250
2032	1,055,000	86,000	1,141,000
2033	1,095,000	43,800	1,138,800
	<u>\$ 16,850,000</u>	<u>\$ 6,166,143</u>	<u>\$ 23,016,143</u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
September 30, 2013

Due During Fiscal Year Ending	Annual Requirements for All Series		
	Principal Due March 1,	Interest Due March 1 & Sept 1	Total
2014	\$ 380,000	\$ 48,876	\$ 428,876
2015	2,345,000	602,989	2,947,989
2016	1,055,000	543,639	1,598,639
2017	1,080,000	529,889	1,609,889
2018	1,110,000	515,937	1,625,937
2019	1,145,000	501,689	1,646,689
2020	1,180,000	480,287	1,660,287
2021	1,220,000	458,289	1,678,289
2022	1,265,000	435,689	1,700,689
2023	1,315,000	412,487	1,727,487
2024	1,370,000	380,413	1,750,413
2025	1,415,000	355,139	1,770,139
2026	1,470,000	328,238	1,798,238
2027	1,530,000	299,501	1,829,501
2028	920,000	251,925	1,171,925
2029	950,000	220,743	1,170,743
2030	980,000	187,381	1,167,381
2031	1,025,000	151,763	1,176,763
2032	1,075,000	100,663	1,175,663
2033	1,115,000	57,613	1,172,613
2034	20,000	12,962	32,962
2035	20,000	12,112	32,112
2036	20,000	11,263	31,263
2037	25,000	10,413	35,413
2038	25,000	9,350	34,350
2039	25,000	8,287	33,287
2040	25,000	7,225	32,225
2041	25,000	6,163	31,163
2042	30,000	5,100	35,100
2043	30,000	3,825	33,825
2044	30,000	2,550	32,550
2045	30,000	1,275	31,275
	<u>\$ 24,250,000</u>	<u>\$ 6,953,675</u>	<u>\$ 31,203,675</u>



**LAGUNA MADRE WATER DISTRICT**  
**TSI - 6. CHANGES IN LONG-TERM BONDED DEBT**  
September 30, 2013

	Bond Issues				Series Total
	Series 2003	Series 2005	Series 2007	Series 2012	
<b>Interest rates</b>	4.75%	4.75%	4.0 - 5.0%	2.0 - 5.0%	
<b>Dates Interest Payable</b>	3/1, 9/1	3/1, 9/1	3/1, 9/1	6/1, 12/1	
<b>Maturity dates</b>	3/1/2003 to 03/01/2043	3/1/2005 to 03/01/2045	03/08/2007 to 03/01/2027	6/1/2012 to 6/1/2033	
<b>Bonds outstanding at beginning of current year</b>	\$ 1,034,000	\$ 575,000	\$ 6,825,000	\$ 18,740,000	\$ 27,174,000
<b>Bonds sold during Current Year</b>	-	-	-		\$ -
<b>Bonds refunded</b>	-	-	-		\$ -
<b>Bonds retired</b>	1,034,000			1,890,000	\$ 2,924,000
<b>Bonds outstanding at end of current year</b>	\$ -	\$ 575,000	\$ 6,825,000	\$ 16,850,000	\$ 24,250,000
<b>Interest paid during the Fiscal Year</b>	\$ 14,000	\$ 12,219	\$ 151,041	\$ 296,381	\$ 473,641

**Paying agent Name & City**

Series 2003 & 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

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

Debt Service Fund Cash and Temporary Investments balances as of 9-30-13: \$2,564,033

Average annual Debt Service payment (principal & Interest) for remaining term of all debt: \$1,006,570

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND AND DEBT SERVICE FUND**  
**Five Years Ended September 30, 2013**

<b>GENERAL FUND:</b>	<b>September 2013</b>	<b>April 2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>REVENUES:</b>					
Water service	\$ 2,251,579	4,949,734	\$ 4,818,723	\$ 4,515,423	\$ 4,254,814
Wastewater service	1,459,563	3,218,697	3,181,969	2,929,795	2,715,595
Penalty and interest	28,115	69,841	75,159	93,890	86,644
Intergovernmental	-	297,509	-	-	-
Tap connection fees	23,850	102,783	91,414	145,837	204,620
Interest on investments	2,143	11,661	13,800	21,935	30,191
Annexation Fees	-	-	-	61,755	25,500
Miscellaneous	48,539	88,503	87,398	267,670	129,373
<b>TOTAL REVENUES</b>	<u>3,813,789</u>	<u>8,738,728</u>	<u>8,268,463</u>	<u>8,036,305</u>	<u>7,446,737</u>
<b>EXPENDITURES:</b>					
Professional fees	130,587	326,684	249,286	234,606	299,542
Contracted service	-	-	-	185,756	230,901
Payroll and benefits	1,483,380	3,619,922	3,276,694	3,293,681	3,432,488
Utilities	487,287	923,408	802,178	919,505	880,677
Materials and supplies	450,425	848,815	699,414	1,200,025	824,601
Repairs and maintenance	140,593	391,607	318,490	201,898	188,507
Other expenditures	67,869	275,786	169,816	217,012	161,169
Capital Outlay	97,785	691,918	174,394	551,662	956,489
<b>TOTAL EXPENDITURES</b>	<u>2,857,926</u>	<u>7,078,140</u>	<u>5,690,272</u>	<u>6,804,145</u>	<u>6,974,374</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 955,863</u>	<u>\$ 1,660,588</u>	<u>\$ 2,578,191</u>	<u>\$ 1,232,160</u>	<u>\$ 472,363</u>
<b>DEBT SERVICE FUND:</b>					
<b>REVENUES:</b>					
Property taxes	\$ 98,278	\$ 2,783,323	\$ 2,724,043	\$ 2,655,003	\$ 2,553,473
Penalty and interest	33,861	88,898	74,483	68,060	73,631
Interest on investments	1,650	17,135	16,322	26,057	75,343
<b>TOTAL REVENUES</b>	<u>133,789</u>	<u>2,889,356</u>	<u>2,814,848</u>	<u>2,749,120</u>	<u>2,702,447</u>
<b>EXPENDITURES:</b>					
Tax collection expense	1,251	70,761	64,424	66,304	69,756
Appraisal charge	6,892	27,655	26,905	27,955	10,404
Debt service, interest and fees	3,421,586	3,538,312	776,103	3,514,911	3,627,828
Bond issue costs	-	480,535	-	3,514,911	3,627,828
<b>TOTAL EXPENDITURES</b>	<u>3,429,729</u>	<u>4,117,263</u>	<u>867,432</u>	<u>7,124,081</u>	<u>7,335,816</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ (3,295,940)</u>	<u>\$ (1,227,907)</u>	<u>\$ 1,947,416</u>	<u>\$ (4,374,961)</u>	<u>\$ (4,633,369)</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>6,208</u>	<u>6,208</u>	<u>6,165</u>	<u>6,396</u>	<u>6,143</u>
<b>TOTAL ACTIVE RETAIL WASTE WATER CONNECTIONS</b>	<u>5,350</u>	<u>6,214</u>	<u>6,193</u>	<u>6,078</u>	<u>6,083</u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - Continued**  
**GENERAL FUND AND DEBT SERVICE FUND**  
**Five Years Ended September 30, 2013**

Percent of Fund Total Revenues				
Sept 2013	April 2013	2012	2011	2010
59.0%	56.6%	58.3%	56.2%	57.1%
38.3%	36.8%	38.5%	36.5%	36.5%
0.7%	0.8%	0.9%	1.2%	1.2%
0.6%	1.2%	1.1%	1.8%	2.7%
0.1%	0.1%	0.2%	0.3%	0.4%
0.0%	0.0%	0.0%	0.8%	0.3%
0.6%	1.1%	1.1%	3.3%	1.7%
<u>99.3%</u>	<u>96.7%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
1.6%	4.0%	3.0%	2.9%	4.0%
0.0%	0.0%	0.0%	2.3%	3.1%
17.9%	43.8%	39.6%	41.0%	46.1%
5.9%	11.2%	9.7%	11.4%	11.8%
5.4%	10.3%	8.5%	14.9%	11.1%
1.7%	4.7%	3.9%	2.5%	2.5%
0.8%	3.3%	2.1%	2.7%	2.2%
1.2%	8.4%	2.1%	6.9%	12.8%
<u>34.6%</u>	<u>85.6%</u>	<u>68.8%</u>	<u>84.7%</u>	<u>93.7%</u>
<u>64.8%</u>	<u>11.0%</u>	<u>31.2%</u>	<u>15.3%</u>	<u>6.3%</u>
73.5%	96.3%	96.8%	96.6%	94.5%
1.2%	3.2%	2.6%	2.5%	2.7%
1.2%	0.6%	0.6%	0.9%	2.8%
<u>75.9%</u>	<u>100.1%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
0.9%	2.4%	2.3%	2.4%	2.6%
5.2%	1.0%	1.0%	1.0%	0.4%
2557.4%	122.5%	0.0%	0.0%	0.0%
0.0%	16.6%	0.0%	127.9%	134.2%
<u>2563.5%</u>	<u>142.5%</u>	<u>30.8%</u>	<u>259.1%</u>	<u>271.5%</u>
<u>-2487.6%</u>	<u>-42.4%</u>	<u>69.2%</u>	<u>-159.1%</u>	<u>-171.5%</u>

**LAGUNA MADRE WATER DISTRICT**  
**TSI - 8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
September 30, 2013

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 9/30/2013	Expense Reimbursement 9/30/2013	Title at Year End
<b>BOARD MEMBERS</b>				
Rudy H. Garcia 507 Mesquite Laguna Vista, Tx	11/10 - 11/14	\$ -	\$ 339.48	Director
Jeff Keplinger 12 Ocelot Trail Laguna Vista, Tx 78578	11/12 - 11/16	\$ -	\$ 243.81	Director
Scott Friedman P.O. Box 3897 South Padre Island, Tx 78597	11/12 - 11/16	\$ -	\$ 536.76	Chairman
Robert Vela 113 Harrison Port Isabel, Tx 78578	05/11 - 05/14	\$ -	\$ 875.18	Secretary
Whitey Thomas 913 Yturria Port Isabel, Tx 78578	11/12 - 11/16	\$ -	\$ 267.77	Vice-Chairman



**LAGUNA MADRE WATER DISTRICT**  
**TSI - 8, BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS - Continued**  
September 30, 2013

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 9/30/2013	Expense Reimbursement 9/30/2013	Title at Year End
<b>KEY ADMINISTRATIVE PERSONNEL</b>				
Carlos J. Galvan 1636 Oklahoma Street Port Isabel, Tx 78578	2001	\$ -	\$ 25.00	General Manager/ Director of Operations
Robert Gomez 39151 Centerline Rd Bayview, Tx 78566	2012	\$ -	\$ 1,543.12	Director of Finance
Charles Ortiz 2085 Sunset Lake Brownsville, Tx 78520	2011	\$ -	\$ 647.89	District Engineer
Victor Valdez 1207 Tangelo Ct Port Isabel, Tx 78578	2013	\$ -	\$ 1,021.39	Director of Operations
<b>CONSULTANTS</b>				
J. A. Magallanes P.O. Box 4901 Brownsville, Tx 78520	1997	\$ 6,000.00	\$ 4,430.93	Attorneys
Estrada Hinojosa & Company, Inc 1717 Main Street Dallas, Tx 75201	1999	\$ 14,000.00	\$ -	Financial Advisor
Orbit Broadband LLC 311-D Vogel Drive Mercedes, Tx 78570	2012	\$ 13,614.98	\$ -	IT Consultant
Sendero South P. O. Box 152 Parkway 2, Suite 150 Ausin, Tx 78735	2013	\$ 220.00	\$ -	
Half Assoc. 5000 W Military Hwy Ste 100 McAllen, Tx 78503	2008	\$ 24,000.00	\$ -	Consultant

This page intentionally left blank.

**OTHER INFORMATION**





LAGUNA MADRE WATER DISTRICT

**TOP TEN TAXPAYERS**  
SEPTEMBER 30, 2013

<u>Owner ID</u>	<u>Taxpayer Name</u>	<u>Market Value</u>	<u>Taxable Value</u>
516435	Sapphire VP LP	\$ 37,335,237	\$ 37,335,237
553339	Agora USA LP	\$ 14,588,280	\$ 14,588,280
526932	Sapphire VP LP Attn: Stephen Swan	\$ 10,517,812	\$ 10,517,812
98181	ICS Management Company	\$ 9,997,001	\$ 9,997,001
324942	AEP Texas Central Co.	\$ 9,064,540	\$ 9,064,540
513223	Cab Partners LP	\$ 8,740,762	\$ 8,740,762
336660	Peninsula Island Resort & Spa LLC	\$ 8,247,266	\$ 8,247,266
103346	South Padre Island Development LP	\$ 8,472,440	\$ 7,798,179
552531	First National Bank	\$ 7,458,404	\$ 7,458,404
154117	Shores Development Inc.	\$ 7,449,605	\$ 7,449,605

LAGUNA MADRE WATER DISTRICT

**TOP TEN RATE PAYERS**  
SEPTEMBER 30, 2013

<u>Account Name</u>	<u>Address</u>	<u>City</u>	<u>Amount</u>
Long Island Village	900 S. Garcia	Port Isabel	\$ 409,724
Cameron County Parks System	Park Road 100	South Padre Island	195,944
Schlitterbahn	Isla Blanca Park	South Padre Island	192,121
Texas Pack, Inc.	508 Port Road	Port Isabel	164,168
SSPIBR, LTD dba Pearl South Padre	310 Padre Blvd	South Padre Island	153,920
Sapphire Condos	310 Padre Blvd	South Padre Island	106,358
Saida Towers II	400 Padre Blvd	South Padre Island	89,393
Port Isabel Park Center	702 Champion	Port Isabel	79,384
SPI Management Co	500 Padre Blvd	South Padre Island	73,585
Bridgepoint Condos	334 Padre Blvd	South Padre Island	71,516

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 five month period ended September 30, 2013, 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 January 6, 2014.

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.



**LONG CHILTON, LLP**

Brownsville, Texas  
January 6, 2014

**COMPLIANCE SECTION**



