



ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016 & 2015

Front cover top, left to right:

- 1) Pretreatment system that uses a microfiltration process to reduce iron and arsenic levels in groundwater.*
- 2) Reverse Osmosis Membrane used to remove salts from the water.*

Front cover bottom:

- 3) Degasifier and Transfer Pump Station that removes carbon dioxide from the water and transfers it to a ground storage tank.*



Southmost Regional Water Authority
Brownsville, Texas

(A component unit of the Brownsville Public Utilities Board)

Annual Financial Report

For the Fiscal Years Ended September 30, 2016 and 2015

Prepared by:
Brownsville Public Utilities Board

SOUTHMOST REGIONAL WATER AUTHORITY

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS }
COUNTY OF Cameron }

I, Leandro G. Garcia, CPA of the
(Name of Duly Authorized Authority Representative)

Southmost Regional Water Authority
(Name of Authority)

hereby swear, or affirm, that the Authority above has reviewed and approved at a meeting of the Authority's Board of Directors on the 6th day of March, 2017, its annual audit report for the fiscal period ended September 30, 2016 and that copies of the annual audit report have been filed in the Authority's office located at 1255 FM 511, Brownsville, Texas 78521
(Address of the Authority's Office)

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

Date: _____, _____ By: _____
(Signature of Authority Representative)

Leandro G. Garcia, CPA, Chief Financial Officer
(Typed Name and Title of Authority Representative)

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

(Signature of Notary)

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

INDEPENDENT AUDITORS' REPORT

To the Board of Board of Directors
Southmost Regional Water Authority

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Southmost Regional Water Authority (the Authority), a component unit of the Public Utilities Board of the City of Brownsville, Texas, as of and for the years ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of September 30, 2016 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Public Utilities Board as of and for the year ended September 30, 2015, were audited by other auditors whose report dated January 18, 2016, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 7-13 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 Authority's financial statements. The Other Supplementary Information and the Texas Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal/state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the

basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal/state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Other Supplementary Information and the Texas Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas

March 6, 2017

**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southmost Regional Water Authority's (Authority) annual financial report presents our analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2016 and 2015. In accordance with Government Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, this report has been prepared analyzing the financial operations of the Authority and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

INTRODUCTION

The Authority was created under provisions of Section I, Chapter 511, Acts of the 67th State of Texas Legislature, Regular Session, 1981 for the purpose of developing alternative water supply strategies for the member entities. The Authority is a conservation and reclamation district organized pursuant to Article XVI, Section 59 of the Texas Constitution.

The Authority remained dormant until the year 2000 when it was activated to study the possibility of using brackish water as an alternative water source due to the limited supply available from the Rio Grande River. The study concluded that it was economically feasible to build a plant to treat brackish water based on the following key elements:

- Source of groundwater is independent of the Rio Grande River.
- Treatment of brackish ground water is competitive with the treatment of surface water.
- A savings on the cost of acquiring water rights from the Rio Grande River.
- Water quality is enhanced through the reverse osmosis treatment.

By embracing a regional approach to the water supply issues of the area, the member entities can take advantage of the cost savings attributed to the economies of scale realized from a larger regional treatment facility. Underground testing, completed in May 2002, projected a yield of 9.5 million gallons a day (MGD) of brackish raw water supply source to a new treatment facility. The first phase, well field and delivery cost, was approximately \$31.7 million, and was completed in June 2004. One of the major costs of the Project was infrastructure which included over 35 miles of raw and treated water pipe needed to supply each entity with water.

Allocation of water is based on the following percent allocation of the participant's water sales:

Brownsville Public Utilities Board	92.91 %
Valley Municipal Utility District #2	2.51 %
City of Los Fresnos	2.28 %
Brownsville Navigation District	2.10 %
Town of Indian Lake	.20 %

The brackish water treatment plant was built on 17 acres located on FM 511 approximately 1.3 miles west of Paredes Line Road (FM 1847). This area is on the north side of Brownsville, Texas and centrally located to all the member entities. The well field is located west of the Valley Municipal Utility District. Expressway 77/83 bounds it on the North and South by FM 1732 and on the West by Cameron County District No. 20 Main Canal.

NRS Engineering was authorized by the Authority to design a reverse osmosis (RO) water treatment system for a well field consisting of 20 wells. The engineering report provides a description of the process and equipment, design considerations, and control system. The original RO plant provided a permeate water capacity of 6.0 MGD with a blended plant capacity of 7.5 MGD.

In 2009, the Authority issued revenue bonds for the construction of a full scale Microfiltration Pretreatment System. The objective of the project was to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by pretreating the brackish groundwater prior to entering the existing reverse osmosis treatment process. Another objective was to control and reduce iron levels to eliminate potential complaints of colored water. A final objective included an additional 2.5 MGD of capacity through upgrading certain pumps within the existing well field and adding two additional reverse osmosis trains. The project was completed in November 2015,

and the Microfiltration Pretreatment System is in full operation.

The Authority has no taxing power. Operation and maintenance costs are funded through guaranteed water supply contracts with the participating entities. The acquisition or construction of capital assets was funded through the selling of bonds with the entities guaranteeing the debt service payments, notes, and obligations issued under the indenture.

The Brownsville Public Utilities Board's (BPUB) allocated interest in the Authority is 92.91%. As such, the BPUB has a 92.91% voting majority in the Authority's Board. Additionally, the vast majority of the Authority's water supply is allocated and sold to the BPUB. Because of this significant interest by the BPUB, the Authority is considered to be a component unit of the BPUB.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased by \$1,175,666 or 10.13 percent.
- During the year, the Authority's operating revenues increased \$436,843 or 7.06 percent, and operating expenses increased by \$432,261 or 10.84 percent.
- Capital assets of the Authority decreased by \$263,151 or 0.7 percent over last year.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplemental information. MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the financial statements.

The *statement of net position* presents the financial position of the Authority on a full accrual basis. The statement of net position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the 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 the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Supplementary information comparing the budget to actual expenses is provided, as well as information required by the Texas Commission on Environmental Quality.

The financial statements were prepared by the BPUB's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent external audit process.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

NET POSITION

A summary of the Authority's Statements of Net Position and Condensed Statements of Revenues, Expenses, and Changes in Net Position are presented in Table A-1 and Table A-2, respectively.

TABLE A-1
Statements of Net Position
September 30, 2016, 2015 and 2014

	FY 2016	FY 2015	FY 2014
Current and Other Assets	\$ 6,872,945	\$ 6,868,199	\$ 7,438,826
Capital Assets	37,238,908	37,502,059	37,224,230
Total Assets	44,111,853	44,370,258	44,663,056
Deferred Outflows of Resources	926,279	977,996	1,029,714
Total Assets Plus Deferred Outflows of Resources	\$ 45,038,132	\$ 45,348,254	\$ 45,692,770
Current Liabilities	\$ 2,072,564	\$ 2,173,890	\$ 2,411,168
Long Term Liabilities	30,187,879	31,572,341	32,911,805
Total Liabilities	\$ 32,260,443	\$ 33,746,231	\$ 35,322,973
Net Investment in Capital Assets	\$ 5,726,030	\$ 5,076,694	\$ 4,549,799
Restricted	2,876,892	2,679,906	2,864,140
Unrestricted	4,174,767	3,845,423	2,955,858
Total Net Position	\$ 12,777,689	\$ 11,602,023	\$ 10,369,797

A review of the Statement of Net Position indicates a decrease of total assets of \$258,405 for FY 2016, and a decrease in total liabilities of \$1,485,788. Additionally, total net position increased \$1,175,666 for FY 2016. The majority of the decrease in liabilities is attributable to construction expenses and bond principal and interest payments for the Micro Filtration Pretreatment System Expansion project. Deferred outflows of resources decreased \$51,717 in FY 2016 as a result of amortization of capitalized debt reacquisition costs.

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TABLE A-2
Statements of Revenues, Expenses, and Changes in Net Position
For Fiscal Years Ended September 30, 2016, 2015 and 2014

	FY 2016	FY 2015	FY 2014
Operating Revenues	\$ 6,622,653	\$ 6,185,810	\$ 6,753,978
Total Revenues	<u>\$ 6,622,653</u>	<u>\$ 6,185,810</u>	<u>\$ 6,753,978</u>
Depreciation Expense	\$ 931,124	\$ 864,865	\$ 864,865
Other Operating Expense	3,489,520	3,123,518	2,775,244
Non-Operating Expense	1,026,343	965,201	1,006,182
Total Expenses	<u>\$ 5,446,987</u>	<u>\$ 4,953,584</u>	<u>\$ 4,646,291</u>
Change in Net Position	\$ 1,175,666	\$ 1,232,226	\$ 2,107,687
Beginning Net Position	11,602,023	10,369,797	8,262,110
Ending Net Position	<u>\$ 12,777,689</u>	<u>\$ 11,602,023</u>	<u>\$ 10,369,797</u>

While the Statement of Net Position shows changes in net position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. Member assessments increased by \$436,843 and expenses increased by \$493,403. The Authority incurred increases in operating expense of approximately \$432,261 from FY 2015, of which the majority represented increases in overhead labor, utilities, chemicals, other services, and maintenance expenses. The Authority incurred increases in operating expense in FY 2015 of approximately \$348,274 from FY 2014, of which the majority represented increases in overhead labor, utilities, chemicals, materials and supplies and maintenance expenses.

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BUDGETARY HIGHLIGHTS

As required by its Bond Indentures, the Authority shall prepare or cause to be prepared and deliver to the Participating Customer its proposed Annual Systems Budget at least 75 days prior to the start of its fiscal year. After due consideration in good faith of any written comments submitted, the Authority shall adopt the budget not less than 30 days prior to the beginning of the fiscal year. The budget remains in effect the entire year and is revised only if necessary through a budget amendment. The Fiscal Year 2016 Budget comparison schedule is presented as supplementary information and not reported on nor shown in the financial statement section of this report.

TABLE A-3
Operations and Maintenance Only
Budget vs. Actual

	FY 2016 Budget	FY 2016 Actual	Variance
Revenues From Operations:			
Operating Revenues	\$ 4,026,265	\$ 4,026,265	\$ -
Total Revenues	\$ 4,026,265	\$ 4,026,265	\$ -
Operating Expenses:			
Professional Fees	\$ 12,000	\$ 10,000	\$ 2,000
Director's Bonds	1,900	1,010	890
Legal Fees	25,000	7,040	17,960
Meeting Expenses	2,800	3,966	(1,166)
Contracted Services - Labor	576,943	578,682	(1,739)
Utilities	1,221,000	1,059,645	161,355
Other	2,186,622	1,829,177	357,445
Total Expenses	\$ 4,026,265	\$ 3,489,520	\$ 536,745
Change in Net Assets	\$ -	\$ 536,745	\$ 536,745

The Operations and Maintenance Budget to Actual Comparison Schedule indicates that the Authority exceeded budgeted expenses for contracted labor and meeting expenses while expenses for professional fees, director's bonds, legal fees, utilities, and other expenses were under budget. The significant variance for other expenses represents a decrease in legal fees of \$17,960, a decrease of \$161,355 in utility expense, and a decrease in the purchases of chemical of \$138,297.

FINANCIAL CONDITION

The Authority's financial condition continues to rest on the Water Supply Contract approved by all the participants in the Desalination Plant Project. All participating members were assessed and contributed their allocated portion of the 2016 Debt Service obligation and Annual Systems Budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At the end of FY 2016, the Authority's net investment in the Desalination Plant totaled \$37.2 million as shown in Table A-4.

TABLE A-4
Capital Assets
September 30, 2016, 2015 and 2014

	FY 2016	FY 2015	FY 2014
Land	\$ 1,802,935	\$ 1,802,935	\$ 1,802,935
Buildings and Structures	16,795,265	14,174,956	14,174,956
Plant	12,105,010	11,297,577	11,297,577
Improvements	2,731,230	-	-
Equipment	13,531,400	5,941,902	5,941,902
Construction in Progress	77,044	13,157,541	12,014,680
Subtotal	47,042,884	46,374,911	45,232,050
Less Accumulated Depreciation	(9,803,976)	(8,872,852)	(8,007,820)
Capital Assets, Net	\$ 37,238,908	\$ 37,502,059	\$ 37,224,230

Capital assets increased only slightly in FY 2016 at \$667,973 as compared to \$1,142,861 in FY 2015. Construction on the Microfiltration Pretreatment System ended during FY 2016. Depreciation expense for FY 2016 and FY 2015 was \$931,124 and \$864,865, respectively. Additional information on the Authority's capital assets can be found in Note 11 on pages 28-29 of this report.

Long-term debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$30.2 million. The bonds are secured solely by specified revenue sources.

TABLE A-5
Outstanding Debt
September 30, 2016, 2015 and 2014

	FY 2016	FY 2015	FY 2014
Revenue Bonds	\$ 30,240,000	\$ 31,520,000	\$ 32,760,000

On December 20, 2006, the Authority issued Water Supply Contract Revenue Refunding Bonds, Series 2006 in the amount of \$9,950,000. The 2006 Series refunding bonds were issued to refund Water Supply Contract Revenue Bonds, Series 2002 in the amount of \$9,360,000.

On December 7, 2009 the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 1.0 million gallons per day of capacity through upgrading certain pumps within the existing well field and adding one additional reverse osmosis train.

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Long-term debt – Continued

On September 26, 2012 the Authority issued \$13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus the bond premium were used to defease \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

The Authority continues to have insured bond ratings from the national rating agencies. The Authority's underlying ratings on its water supply contract revenue bonds are "A2" and "A+" by Moody's and Fitch Ratings, respectively.

Note 9 on pages 24-28 provides an explanation of the Authority's outstanding long-term debt as of September 30, 2016.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Southmost Regional Water Authority, P. O. Box 3270, Brownsville, Texas 78523-3270.

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BASIC FINANCIAL STATEMENTS

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF NET POSITION
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash - unrestricted	\$ 211,210	\$ 176,940
Cash - restricted	443,109	329,079
Investments - unrestricted	3,015,254	2,627,079
Investments - restricted	2,517,045	2,437,720
Due from other governments	194,526	787,197
Interest receivable	11,754	5,905
Prepaid expense	36,621	37,218
Total Current Assets	<u>6,429,519</u>	<u>6,401,138</u>
Capital Assets:		
Capital assets, net of accumulated depreciation	37,238,908	37,502,059
Other Assets:		
Unamortized regulatory assets	443,426	467,061
Total Assets	<u>44,111,853</u>	<u>44,370,258</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	926,279	977,996
Total Deferred Outflows of Resources	<u>926,279</u>	<u>977,996</u>
Total Assets plus Deferred Outflows of Resources \$	<u>45,038,132</u>	<u>\$ 45,348,254</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 332,279	\$ 613,438
Accrued interest	83,262	86,893
Bonds payable - current redemption	1,325,000	1,280,000
Unearned revenues	332,023	193,559
Total Current Liabilities	<u>2,072,564</u>	<u>2,173,890</u>
Non-Current Liabilities:		
Bonds payable	28,915,000	30,240,000
Reoffering premium	1,601,708	1,678,420
Bond issue discount	(328,829)	(346,079)
Total Non-Current Liabilities	<u>30,187,879</u>	<u>31,572,341</u>
Total Liabilities	<u>32,260,443</u>	<u>33,746,231</u>
Net Position:		
Net investment in capital assets	5,726,030	5,076,694
Restricted for debt service	1,429,192	1,320,324
Restricted for capital projects	1,447,700	1,359,582
Unrestricted	4,174,767	3,845,423
Total Net Position	<u>12,777,689</u>	<u>11,602,023</u>
Total Liabilities and Net Position	<u>\$ 45,038,132</u>	<u>\$ 45,348,254</u>

See notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Member assessments	\$ <u>6,622,653</u>	\$ <u>6,185,810</u>
Total Operating Revenues	<u>6,622,653</u>	<u>6,185,810</u>
 Operating Expenses:		
Professional fees	10,000	10,000
Director's bonds	1,010	1,040
Legal fees	7,040	12,195
Meeting expenses	3,966	3,980
Utilities	1,059,645	923,081
Other expenses	2,407,859	2,173,222
Depreciation expense	<u>931,124</u>	<u>864,865</u>
Total Operating Expenses	<u>4,420,644</u>	<u>3,988,383</u>
 Operating Income	2,202,009	2,197,427
 Non-Operating Revenues (Expenses):		
Non-operating revenues (expenses)	(35,701)	(7,413)
Interest from investments	38,350	25,277
Amortized regulatory asset	(15,889)	(15,889)
Interest expense	<u>(1,013,103)</u>	<u>(967,176)</u>
Net Non-Operating Revenues (Expenses)	<u>(1,026,343)</u>	<u>(965,201)</u>
 Change in net position	1,175,666	1,232,226
Net position at beginning of year	<u>11,602,023</u>	<u>10,369,797</u>
Net position at end of year	\$ <u><u>12,777,689</u></u>	\$ <u><u>11,602,023</u></u>

See notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOW
For Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Cash received from members	\$ 7,347,939	\$ 7,253,921
Cash paid for services	(3,805,783)	(3,414,777)
Net cash provided by Operating Activities	<u>3,542,156</u>	<u>3,839,144</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on debt	(1,280,000)	(1,240,000)
Interest paid on debt	(1,016,734)	(970,002)
Acquisition of capital assets	(667,973)	(1,142,694)
Net cash (used) by Capital and Related Financing Activities	<u>(2,964,707)</u>	<u>(3,352,696)</u>
Cash Flows from Investing Activities:		
Interest received	38,350	25,277
Purchase of investments	(3,678,732)	(3,586,104)
Sales of investments	3,599,408	2,529,416
Net cash (used) by Investing Activities	<u>(40,974)</u>	<u>(1,031,411)</u>
Net increase (decrease) in cash	536,475	(544,963)
Cash and cash equivalents at beginning of year	3,133,098	3,678,061
Cash and cash equivalents at end of year	<u>\$ 3,669,573</u>	<u>\$ 3,133,098</u>
Reconciliation of Cash and Cash Equivalents:		
Cash - unrestricted	\$ 211,210	\$ 176,940
Cash - restricted	443,109	329,079
Pooled investments - unrestricted	3,015,254	2,627,079
Total cash	<u>\$ 3,669,573</u>	<u>\$ 3,133,098</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,202,009	\$ 2,197,427
Adjustments:		
Depreciation expense	931,124	864,865
Non-operating revenues (expenses)	(35,701)	(7,413)
Changes in assets and liabilities:		
Decrease (increase) in receivables	586,822	1,067,603
Decrease (increase) in prepaids	597	(8,886)
Increase (decrease) in accounts payable	(281,159)	(274,960)
Increase (decrease) in unearned revenues	138,464	508
Net cash provided by Operating Activities	<u>\$ 3,542,156</u>	<u>\$ 3,839,144</u>

See notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 1 – Nature of Business

The Southmost Regional Water Authority (“Authority”), a component unit of the Public Utilities Board of the City of Brownsville, is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196 (the “Enabling Act” or the “Act”). The Authority will provide treated water to various areas of Cameron County.

Note 2 – Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the financial statements follows:

1. Basis of Presentation and Accounting

The Authority’s financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

The Authority’s financial statements are also presented following the requirements of the *Water District Financial Management Guide* issued by the Texas Commission on Environmental Quality and effective for fiscal years ending after June 15, 2004.

The accounting records are organized on the fund accounting concept. The Authority operates under one enterprise fund.

2. Investments

Statutes authorize the Authority 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; certificates of deposit; prime domestic bankers’ acceptances; certain commercial paper, certain mutual funds; and fully collateralized repurchase agreements.

3. Restricted Assets

Certain proceeds of the Authority’s revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable columns in the financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Interest incurred during the construction phase of capital assets is included in the capitalized value of the assets constructed. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of eighteen months.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes in 2016 and 2015.

<u>Classification</u>	<u>Range of lives</u>
Water plant-in-service	30 years
Buildings	33 years
Improvements other than buildings	25 to 50 years
Equipment	10 to 50 years

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies - Continued

5. Budget

An annual budget is created for the Authority each year. As required by the Authority's bond indenture, the proposed Annual System Budget shall be delivered to the Participating Customers at least 75 days prior to the beginning of the fiscal year. After consultation with the participants, the final budget must be approved not less than 30 days prior to the beginning of the fiscal year.

6. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

7. Amortization

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

8. Revenue Recognition

The Authority recognizes revenue by billing the members their percentage allocation of the operations and maintenance expenses and the debt service requirements, in advance, on an annual basis.

9. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Authority considers money market accounts, certificates of deposit, and investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

10. Deferred Inflows of Resources

GASB Concept Statement No. 4, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, provided definitions for elements in the financial statements. Deferred inflows of resources are the acquisition of net assets applicable to a future reporting period. GASB Statement No. 63 established guidance for reporting this element on the statement of net position, and GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred inflows of resources, certain items that were previously reported as liabilities. The Authority had no deferred inflows of resources to report at September 30, 2016 and 2015.

11. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of net position applicable to a future reporting period, as defined in GASB Concept Statement No. 4. GASB Statement No. 63 establishes guidance for reporting this element on the statement of net position and GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets.

For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies - Continued

11. Deferred Outflows of Resources– Continued

the remaining life of the refunding or the refunded debt. At September 30, 2016, and September 30, 2015, reacquisition costs totaled \$0.93 million and \$0.98 million, respectively.

12. Regulatory Basis Assets

The Authority is a blended component unit of the Public Utilities Board of the City of Brownsville (Brownsville PUB), therefore the Authority made the same election as the Brownsville PUB to establish a regulatory asset for the debt issuance costs in accordance with regulated operations under GASB Statement No. 62. The debt issuance costs would otherwise have been expensed upon implementation of GASB Statement No. 65.

13. Current Year GASB Statement Implementations

In fiscal year 2016, the Authority implemented the following GASB statements:

GASB Statement No. 72 *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. The adoption of Statement 72 resulted in additional footnote disclosures describing assets and liabilities reported at fair value and the valuation technique used to determine fair value.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides guidance for two new recognized categories of authoritative GAPP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this guidance did not have any significant impact on the Authority's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission (SEC) rule that was previously included in GASB literature by reference. This Statement did not have a significant impact on the Authority's financial reporting.

In fiscal year 2015, there were no new GASB statements the Authority implemented.

14. Comparative Data/Reclassification

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation

Note 3 – Deposits and Investments

The Authority's deposits and investments are insured by federal depository insurance or collateralized by financial institutions by governmental securities held in the Authority's name. The Authority's deposits and investments were entirely covered by the Federal Deposit Insurance Corporation. On December 14, 2015, the Authority approved a revised Investment Policy for its investments.

The carrying value of deposits with financial institutions approximates fair value.

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 3 – Deposits and Investments – Continued

Interest rate risk deposits – In accordance with the Authority’s Investment Policy, the weighted average to maturity for the Authority’s portfolio is less than 270 days. The Authority’s cash deposit accounts have no fixed maturities. Therefore, the weighted average maturity in terms of years for the cash deposits is not applicable.

The Authority invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. These pools are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. These pools are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2016, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 45 days, 55 days, and 41 days respectively. The Authority considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Credit risk deposits – The Authority identifies and manages credit risks by following its adopted Investment Policy. The Authority implements its investment strategy, establishes and monitors compliance with investment policies and procedures, and consistently monitors prudent risk controls.

Custodial credit risk deposits – In accordance with the Authority’s Investment Policy, the financial institution must collateralize deposits with a minimum of 102% of the market value of the principal portion. The Authority signed an agreement with its financial institution pledging the Authority’s funds to a minimum of 102% of the market value of the principal portion.

As of September 30, the Authority had the following investments:

September 30, 2016			
	Amount	Weighted Avg Maturity (days)	Rating
U.S. Treasury Note	\$ 554,629	46	AAAm
Money Market Mutual Funds	252,681	1	AAAm
Certificate of Deposit	1,164,000	39	A1P1
Local Government Investment Pools	3,560,989	1	AAAm
Total	<u>\$ 5,532,299</u>		

September 30, 2015			
	Amount	Weighted Avg Maturity (days)	Rating
U.S. Treasury Note	\$ 554,629	90	AAAm
Money Market Mutual Funds	200,887	1	AAAm
Certificate of Deposit	675,000	37	A1P1
Local Government Investment Pools	3,634,283	1	AAAm
Total	<u>\$ 5,064,799</u>		

Interest risk investments – In accordance with the Authority’s Investment Policy, the investment pool shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investment. The maximum dollar weighted maturity allowed shall be no greater than 90 days. The Authority manages exposure to fair value losses resulting from rising interest rates by limiting the portfolio’s weighted average maturity to two years. The Authority invests in money market and treasury money market funds that have no fixed maturities; therefore, the weighted average maturity in terms of years is not applicable.

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 3 – Deposits and Investments – Continued

Credit risk investments – In accordance with the Authority’s Investment Policy, investment pools must be rated no lower than AAA or AAA-m with a weighted average maturity no greater than 90 days and any other obligations shall be rated “A” or better. For FY 2016 and FY 2015, the Authority managed exposure to credit risk by limiting its fixed income investments to a rating of “A” or better. The Authority held no investments with a rating below AA.

Concentration of credit risk investments – In accordance with its investment policies, the Authority manages exposure to credit risk through diversification and by limiting its investments in each investment pool to 75%, 75% in money market funds, and 75% in government agencies. Risk is controlled by investing only in the safest types of securities as defined in its policy; by collateralization as required by law and through portfolio diversification by maturity and type.

Custodial credit risk investments - The Authority’s Investment Policy allows a third-party banking institution acceptable to and under contract with the Authority or by the Federal Reserve Bank to serve as custodian of Security Notes.

Fair Value measurement – The Authority records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. The Authority’s fair value measurements are performed on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities and certificates of deposit are examples of Level 2 inputs.
- Level 3 – inputs are unobservable inputs that reflect the Authority’s own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

The valuation technique the Authority uses to measure fair value is the market approach. This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities, and is applied consistently.

The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2016. Investment balances presented exclude amounts related to money market mutual fund investments and 2a7-like external investment pools accounted for using amortized cost.

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SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 3 – Deposits and Investments – Continued

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Fair Value Investments				
U.S. Treasuries	\$ 554,629	\$ -	\$ -	\$ 554,629
Certificates of Deposit	-	1,164,000	-	1,164,000
Total fair value investments	<u>\$ 554,629</u>	<u>\$ 1,164,000</u>	<u>\$ -</u>	<u>\$ 1,718,629</u>

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Fair Value Investments				
U.S. Treasuries	\$ 554,629	\$ -	\$ -	\$ 554,629
Certificates of Deposit	-	675,000	-	675,000
Total fair value investments	<u>\$ 554,629</u>	<u>\$ 675,000</u>	<u>\$ -</u>	<u>\$ 1,229,629</u>

Note 4 – Related Party Transactions

As of September 30, 2016 and 2015 the Authority includes the territory located within the following cities:

Brownsville Public Utilities Board
Valley Municipal Utility District No. 2
City of Los Fresnos
Brownsville Navigation District
Town of Indian Lake

Territory may be added or removed from the Authority, in accordance with certain provisions. Each participant's governing body appoints an individual as a director of the Authority. The Board of Directors will exercise all powers of the Authority subject to some restrictions imposed by law and By-laws. The directors serve a two-year term of office beginning on June 1 of odd-numbered years. Each participating entity is accorded a percentage of interest.

The members' allocated portion is as follows:

Brownsville Public Utilities Board	92.91%
Valley Municipal Utility District No. 2	2.51%
City of Los Fresnos	2.28%
Brownsville Navigation District	2.10%
Town of Indian Lake	0.20%
	<u>100.00%</u>

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 5 – Due From Other Governments

At September 30, 2016 and 2015 the Authority had the following outstanding accounts receivable:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Due From – City of Los Fresnos	\$ 4,416	\$ 4,413
Due From – Town of Indian Lake	387	2,492
Due From – Brownsville		
Navigation District	-	4,065
Due From – Valley Municipal		
Utility District No. 2	4,861	4,858
Due From – Brownsville Public		
Utilities Board	<u>167,021</u>	<u>-</u>
Total Due from Members	176,685	15,828
Accounts Receivable – TWDB	-	771,369
Accounts Receivable – BOR	<u>17,841</u>	<u>-</u>
	<u>\$ 194,526</u>	<u>\$ 787,197</u>

Note 5 – Due From Other Governments - Continued

On December 7, 2009, the Authority issued \$13,090,000 in Water Supply Contract Revenue Bonds, Series 2009A and 2009B through the Texas Water Development Board (TWDB) Drinking Water State Revolving Fund. Funds were held by the TWDB and released through installments as project expenses were incurred. On June 6, 2013 TWDB released all remaining funds which were then deposited into an Escrow account with Wells Fargo Bank. The escrow account balance at September 30, 2015 was \$771,369 and at September 30, 2016 was \$0.

Note 6 – Net Position

Net position comprises the various net earnings from operating revenues, expenses, and contributions of capital. Net position represents the difference between assets plus deferred outflows of resources and liabilities.

Note 7 – Commitments and Contingencies

The Authority had \$309,960 and \$951,233 in construction commitments at September 30, 2016 and 2015, respectively.

Note 8 - Leases

The Authority initially entered into nineteen (19) ground lease agreements. Since then, the Authority purchased sixteen of the properties through a fee simple purchase. The Authority agreed to pay \$500.00 per annum per lease for the remaining leases. The rental will be prepaid annually. The total amount of the three remaining leases is \$1,500. So long as Lessee is not in default, the term of the lease may be extended (“extended term”), at the option of the Lessee, for up to thirty (30) years. The renewal of the extended term of the leases will be automatic unless a written notice is provided to the Lessor at least 180 days before the end of the primary term.

Note 9 – Bonds Payable

On December 12, 2002, the Authority issued Revenue Bonds Series 2002 for \$30,975,000. Proceeds of the Bonds financed the acquisition of right-of-way and real property interest, and the design, construction and equipping of 7.5 MGD brackish water desalination plant and a water conveyance system, along with all extensions, additions, enlargements, improvements, and modifications. Interest on the Series 2002 Bonds accrued from December 1, and was payable March 1, and each September 1 and March 1 thereafter until maturity or prior redemption.

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 9 – Bonds Payable –Continued

On December 7, 2009, the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The Series 2009A bonds were issued at 0.0% interest with annual installments ranging from \$305,000 to \$310,000 through maturity in 2039. The Series 2009B bonds bear interest at a range from 0.10% to 4.25% with annual installments ranging from \$125,000 to \$270,000 through maturity in 2029.

Current Refunding

During FY 2014, the Authority issued \$13,530,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2012 for an advance refunding of \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by \$48,131. This amount together with \$423,630 of unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2027. This advance refunding was undertaken to reduce total debt service payments and resulted in an economic gain (difference between the present values of the old debt and new debt service payments) of \$2,139,931.

Prior Year Defeasance of Debt

In prior years, the Authority has defeased various bond issues by creating separate irrevocable trust funds. New Debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or it matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from long-term debt. As of September 30, 2016, the amount of defeased debt outstanding but removed from long-term debt amounted to \$0.

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SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Revenue bond balance and activity as of and for the year ending September 30, 2016 are as follows:

	<u>Balance at Oct. 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at Sep. 30, 2016</u>	<u>Due Within One Year</u>
\$9,950,000 Water Supply Contract Revenue Refunding Bonds, Series 2006; due in remaining annual installments ranging from \$10,000 to \$1,845,000 through 2032 with interest rate ranging from 4.0% to 5.5%.	\$ 9,790,000	\$ -	\$ (25,000)	\$ 9,765,000	\$ 25,000
\$9,295,000 Revenue Bonds, Series 2009A; due in remaining annual installments ranging from \$305,000 to \$310,000 through 2039 with interest rate at 0.0%.	7,435,000	-	(310,000)	7,125,000	310,000
\$3,795,000 Revenue Bonds, Series 2009B; due in remaining annual installments ranging from \$125,000 to \$270,000 through 2029 with interest rate ranging from 0.10% to 4.25%.	2,950,000	-	(160,000)	2,790,000	165,000
\$13,530,000 Water Supply Contract Revenue Refunding Bonds, Series 2012; due in remaining annual installments ranging from \$700,000 to \$1,285,000 through 2027 with interest rate ranging from 3.0% to 5.0%	11,345,000	-	(785,000)	10,560,000	825,000
Total Long-Term Debt	<u>\$ 31,520,000</u>	<u>\$ -</u>	<u>\$ (1,280,000)</u>	<u>\$ 30,240,000</u>	<u>\$ 1,325,000</u>

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SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 9 – Bonds Payable –Continued

Revenue bond balance and activity as of and for the year ending September 30, 2015 are as follows:

	<u>Balance at Oct. 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at Sep. 30, 2015</u>	<u>Due Within One Year</u>
\$9,950,000 Water Supply Contract Revenue Refunding Bonds, Series 2006; due in remaining annual installments ranging from \$10,000 to \$1,845,000 through 2032 with interest rate ranging from 4.0% to 5.5%.	\$ 9,810,000	\$ -	\$ (20,000)	\$ 9,790,000	\$ 25,000
\$9,295,000 Revenue Bonds, Series 2009A; due in remaining annual installments ranging from \$305,000 to \$310,000 through 2039 with interest rate at 0.0%.	7,745,000	-	(310,000)	7,435,000	310,000
\$3,795,000 Revenue Bonds, Series 2009B; due in remaining annual installments ranging from \$125,000 to \$270,000 through 2029 with interest rate ranging from 0.10% to 4.25%.	3,105,000	-	(155,000)	2,950,000	160,000
\$13,530,000 Water Supply Contract Revenue Refunding Bonds, Series 2012; due in remaining annual installments ranging from \$700,000 to \$1,285,000 through 2027 with interest rate ranging from 3.0% to 5.0%	12,100,000	-	(755,000)	11,345,000	785,000
Total Long-Term Debt	<u>\$ 32,760,000</u>	<u>\$ -</u>	<u>\$ (1,240,000)</u>	<u>\$ 31,520,000</u>	<u>\$ 1,280,000</u>

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SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 9 – Bonds Payable –Continued

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

Year ending September 30:

	Principal	Interest	Total
2017	\$ 1,325,000	\$ 999,141	\$ 2,324,141
2018	1,350,000	977,389	2,327,389
2019	1,425,000	929,639	2,354,639
2020	1,465,000	873,264	2,338,264
2021	1,515,000	819,269	2,334,269
2022-2026	8,515,000	3,180,951	11,695,951
2027-2031	10,325,000	1,506,606	11,831,606
2032-2036	3,395,000	77,490	3,472,490
2037-2041	925,000	-	925,000
	<u>\$ 30,240,000</u>	<u>\$ 9,363,749</u>	<u>\$ 39,603,749</u>

Note 10 – Unearned Revenues

Member assessments collected in advance are deferred and recognized when the assessments are earned. At September 30, 2016, and 2015, unearned revenue totaled \$332,023, and \$193,559, respectively.

Note 11 – Capital Assets

Changes in the Authority's capital assets for the year ending September 30, 2016 were as follow:

	Balance at 10/01/2015	Additions	Deletions	Reclassifications	Balance at 09/30/2016
Capital assets, not being depreciated:					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	13,157,541	556,784	-	(13,637,281)	77,044
Total capital assets not being depreciated	<u>14,960,476</u>	<u>556,784</u>	<u>-</u>	<u>(13,637,281)</u>	<u>1,879,979</u>
Capital assets being depreciated:					
Plant	11,297,577	-	-	807,433	12,105,010
Buildings and structures	14,174,956	18,026	-	2,602,283	16,795,265
Improvements	-	-	-	2,731,230	2,731,230
Equipment	5,941,902	93,163	-	7,496,335	13,531,400
Total capital assets being depreciated	<u>31,414,435</u>	<u>111,189</u>	<u>-</u>	<u>13,637,281</u>	<u>45,162,905</u>
Total capital assets	46,374,911	667,973	-	-	47,042,884
Less accumulated depreciation for:					
Plant	(2,735,588)	(275,051)	-	-	(3,010,639)
Buildings and structures	(4,096,965)	(405,283)	-	-	(4,502,248)
Improvements	-	(9,104)	-	-	(9,104)
Equipment	(2,040,299)	(241,686)	-	-	(2,281,985)
Total accumulated depreciation	<u>(8,872,852)</u>	<u>(931,124)</u>	<u>-</u>	<u>-</u>	<u>(9,803,976)</u>
Capital assets, net	<u>\$ 37,502,059</u>	<u>\$ (263,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,238,908</u>

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 11 – Capital Assets - Continued

Changes in the Authority's capital assets for the year ending September 30, 2015 were as follow:

	Balance at 10/01/2014	Additions	Deletions	Reclassifications	Balance at 09/30/2015
Capital assets, not being depreciated:					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	12,014,680	1,142,861	-	-	13,157,541
Total capital assets not being depreciated	13,817,615	1,142,861	-	-	14,960,476
Capital assets being depreciated:					
Plant	11,297,577	-	-	-	11,297,577
Buildings and structures	14,174,956	-	-	-	14,174,956
Equipment	5,941,902	-	-	-	5,941,902
Total capital assets being depreciated	31,414,435	-	-	-	31,414,435
Total capital assets	45,232,050	1,142,861	-	-	46,374,911
Less accumulated depreciation for:					
Plant	(2,628,399)	(270,624)	(167)	163,602	(2,735,588)
Buildings and structures	(3,554,946)	(394,573)	-	(147,446)	(4,096,965)
Equipment	(1,824,475)	(199,668)	-	(16,156)	(2,040,299)
Total accumulated depreciation	(8,007,820)	(864,865)	(167)	-	(8,872,852)
Capital assets, net	\$ 37,224,230	\$ 277,996	\$ 167	\$ -	\$ 37,502,059

Note 12 – Risk Management

The Authority is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The Authority purchases general liability and property insurance coverage to provide protection in the event of large and/or catastrophic losses. In addition, the Authority purchases Directors & Officers (D&O), Public Officials and auto liability insurance coverage. Independent Insurance Consultant, Gallagher Benefit Services, Inc., was contracted for consulting services in FY 2015. Gallagher Benefits Services has determined adequate insurance retentions for the Authority based on insurable values and the market for each line of coverage.

The insurable value for the Authority in FY 2015 was \$40,196,111 and increased to \$40,726,700 for FY 2016. The premium for FY 2016 was \$71,161 and \$67,894 for FY 2015.

Note 13 – Pending GASBs

As of September 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements that have been evaluated for financial statement impact are as follows:

- GASB Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*;
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*;
- GASB Statement No. 77, *Tax Abatement Disclosures*;
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*;

SOUTHMOST REGIONAL WATER AUTHORITY

Notes to the Financial Statements

September 30, 2016 and 2015

Note 13 - Pending GASBs – Continued

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*

Management has evaluated these pending GASB statements, and has determined there to be no financial statement impact to the Authority.

OTHER
SUPPLEMENTARY INFORMATION

SOUTHMOST REGIONAL WATER AUTHORITY
BUDGETARY COMPARISON SCHEDULE
For the year ended September 30, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Income:			
Member Contributions:			
Brownsville PUB	\$ 6,143,885	\$ 6,143,885	\$ -
Valley Municipal Utility District #2	169,494	169,494	-
City of Los Fresnos	153,962	153,962	-
Brownsville Navigation District	141,808	141,808	-
Town of Indian Lake	13,505	13,505	-
Total Member Contributions	6,622,653	6,622,653	-
Interest Income	-	38,350	38,350
Total Income	6,622,653	6,661,003	38,350
Expense:			
Operating Expenses:			
Professional Fees	12,000	10,000	2,000
Director's Bonds	1,900	1,010	890
Legal Fees	25,000	7,040	17,960
Meeting Expenses	2,800	3,966	(1,166)
Contracted Services - Labor	576,943	578,682	(1,739)
Other	2,186,622	1,829,177	357,445
Utilities	1,221,000	1,059,645	161,355
Non-Operating Expenses:			
Interest Expense	1,042,714	1,013,103	29,611
Non-Operating Expense	-	35,701	(35,701)
Total Expenses	5,068,979	4,538,324	530,655
Net Income (Loss)	\$ 1,553,674	\$ 2,122,679 ¹	\$ 569,005
Depreciation Expense Not Budgeted		(931,124)	
Amortized Regulatory Asset Not Budgeted		(15,889)	
Change in Net Position		\$ 1,175,666	

¹ Represents principal payment on long-term debt of \$1,280,000; O&M reserve allocation of \$9,926; and capital budget of \$263,748.

TEXAS

SUPPLEMENTARY INFORMATION

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-2. Authority Expenses
For the Year Ending September 30, 2016

Personnel Expenses (including benefits) 6160	\$ 578,682
Professional Fees:	
Auditing - 7615	10,000
Arbitrage - 7615	-
Legal – 7601	7,040
Engineering – 7605	-
Other Consulting Services – 7699	123,440
Purchased Services For Resale:	
Bulk Water and Wastewater Service Purchases	-
Contracted Services:	
Bookkeeping	-
General Manager	-
Appraisal District	-
Tax Collector	-
Other Expenses – 7650	5,667
Utilities – 7180	1,059,645
Repairs and Maintenance – 7520, 7581 & 7645	136,750
Administrative Expenses:	
Directors Fees	-
Materials and Supplies – 7120, 7203-7299	1,348,863
Insurance – 7380, 7381, 7384 & 7385	75,806
Meeting Expenses - 7315	3,966
Depreciation Expense - 7901	931,124
Capital Outlay:	
Capitalized Assets	-
Expenses not Capitalized	-
Tap Connection Expenses	-
Solid Waste Disposal	-
Amortized Regulatory Asset	15,889
Interest Expense	1,013,103
Other Expenses	175,362
TOTAL EXPENSES	<u>\$ 5,485,337</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-3. Temporary Investments
For the Year Ending September 30, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
U.S. Treasury Note	912828ue8	1.15%	12/31/17	\$ 554,629	\$ 6,694
Texpool	78762	0.37%	N/A	299,485	-
US Bank	7576002480	0.34%	N/A	37,389	-
US Bank	135463000	0.34%	N/A	48,689	-
US Bank	200804000	0.34%	N/A	110,078	-
US Bank	135463001	0.34%	N/A	56,525	-
Texas Daily	Texasdaily	0.47%	N/A	3,261,504	-
Texas TERM CD Program	Texasterm	0.98%	6/30/17	680,000	-
Texas TERM CD Program	Texasterm	0.90%	2/21/17	<u>484,000</u>	<u>5,060</u>
Total				\$ <u>5,532,299</u>	\$ <u>11,754</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2006) – by Years
For the Year Ending September 30, 2016

DUE DURING FISCAL YEARS ENDING	Series 2006		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2017	\$ 25,000	\$ 420,434	\$ 445,434
2018	25,000	419,059	444,059
2019	935,000	417,684	1,352,684
2020	30,000	366,259	396,259
2021	30,000	364,999	394,999
2022	30,000	363,739	393,739
2023	30,000	362,478	392,478
2024	35,000	361,219	396,219
2025	35,000	359,749	394,749
2026	35,000	358,279	393,279
2027	35,000	356,809	391,809
2028	1,570,000	355,339	1,925,339
2029	1,635,000	289,399	1,924,399
2030	1,700,000	221,955	1,921,955
2031	1,770,000	151,830	1,921,830
2032	1,845,000	77,488	1,922,488
	\$ <u>9,765,000</u>	\$ <u>5,246,719</u>	\$ <u>15,011,719</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009A) – by Years - Continued
For the Year Ending September 30, 2016

DUE DURING FISCAL YEARS ENDING	Series 2009A		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2017	\$ 310,000	\$ —	\$ 310,000
2018	310,000	—	310,000
2019	310,000	—	310,000
2020	310,000	—	310,000
2021	310,000	—	310,000
2022	310,000	—	310,000
2023	310,000	—	310,000
2024	310,000	—	310,000
2025	310,000	—	310,000
2026	310,000	—	310,000
2027	310,000	—	310,000
2028	310,000	—	310,000
2029	310,000	—	310,000
2030	310,000	—	310,000
2031	310,000	—	310,000
2032	310,000	—	310,000
2033	310,000	—	310,000
2034	310,000	—	310,000
2035	310,000	—	310,000
2036	310,000	—	310,000
2037	310,000	—	310,000
2038	310,000	—	310,000
2039	305,000	—	305,000
	\$ <u>7,125,000</u>	\$ <u>—</u>	\$ <u>7,125,000</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009B) – by Years - Continued
For the Year Ending September 30, 2016

DUE DURING FISCAL YEARS ENDING	Series 2009B		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2017	\$ 165,000	\$ 100,557	\$ 265,557
2018	175,000	96,680	271,680
2019	180,000	92,305	272,305
2020	190,000	87,355	277,355
2021	195,000	81,369	276,369
2022	205,000	74,838	279,838
2023	210,000	67,765	277,765
2024	220,000	60,205	280,205
2025	230,000	52,065	282,065
2026	240,000	42,864	282,864
2027	250,000	33,025	283,025
2028	260,000	22,525	282,525
2029	270,000	11,475	281,475
	\$ <u>2,790,000</u>	\$ <u>823,030</u>	\$ <u>3,613,030</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2012) – by Years - Continued
For the Year Ending September 30, 2016

DUE DURING FISCAL YEARS ENDING	Series 2012		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2017	\$ 825,000	\$ 478,150	\$ 1,303,150
2018	840,000	461,650	1,301,650
2019	-	419,650	419,650
2020	935,000	419,650	1,354,650
2021	980,000	372,900	1,352,900
2022	1,030,000	323,900	1,353,900
2023	1,085,000	272,400	1,357,400
2024	1,135,000	218,150	1,353,150
2025	1,190,000	161,400	1,351,400
2026	1,255,000	101,900	1,356,900
2027	1,285,000	64,250	1,349,250
	\$ <u>10,560,000</u>	\$ <u>3,294,000</u>	\$ <u>13,854,000</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(All Debt Series) – by Years
For the Year Ending September 30, 2016

DUE DURING FISCAL YEARS ENDING	Annual Requirements for All Series		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2017	\$ 1,325,000	\$ 999,141	\$ 2,324,141
2018	1,350,000	977,389	2,327,389
2019	1,425,000	929,639	2,354,639
2020	1,465,000	873,264	2,338,264
2021	1,515,000	819,268	2,334,268
2022	1,575,000	762,477	2,337,477
2023	1,635,000	702,643	2,337,643
2024	1,700,000	639,574	2,339,574
2025	1,765,000	573,214	2,338,214
2026	1,840,000	503,043	2,343,043
2027	1,880,000	454,084	2,334,084
2028	2,140,000	377,864	2,517,864
2029	2,215,000	300,874	2,515,874
2030	2,010,000	221,955	2,231,955
2031	2,080,000	151,830	2,231,830
2032	2,155,000	77,490	2,232,490
2033	310,000	—	310,000
2034	310,000	—	310,000
2035	310,000	—	310,000
2036	310,000	—	310,000
2037	310,000	—	310,000
2038	310,000	—	310,000
2039	305,000	—	305,000
	<u>\$ 30,240,000</u>	<u>\$ 9,363,749</u>	<u>\$ 39,603,749</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-6. Changes in Long-Term Debt
For the Year Ending September 30, 2016

	<u>Revenue Bond Issues</u>			
	<u>Series 2006</u>	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2012</u>
Interest Rate	3.7 - 5.5%	0.00%	0.1 - 4.25%	3.0 -5.0%
Dates Interest Payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity Dates	9/1/2032	9/1/2039	9/1/2029	9/1/2027
Beginning Bonds Outstanding	\$ 9,790,000	\$ 7,435,000	\$ 2,950,000	\$ 11,345,000
Bonds Sold During the Fiscal Year	-	-	-	-
Bonds Retired During the Fiscal Year	<u>(25,000)</u>	<u>(310,000)</u>	<u>(160,000)</u>	<u>(785,000)</u>
Ending Bonds Outstanding	<u>\$ 9,765,000</u>	<u>\$ 7,125,000</u>	<u>\$ 2,790,000</u>	<u>\$ 10,560,000</u>
Interest Paid During the Fiscal Year	\$ 421,396	\$ -	\$ 103,918	\$ 517,400
Paying Agent's Name and City	<u>U.S. Bank, N.A.</u> Houston, TX	<u>U.S. Bank, N.A.</u>	<u>U.S. Bank, N.A.</u>	<u>U.S. Bank, N.A.</u>
Bond Authority:	<u>Tax Bonds*</u>	<u>Revenue Bonds</u>	<u>Refunding Bonds</u>	
Amount Authorized by Participants	\$ -	\$ 44,065,000	\$ 23,480,000	
Amount Issued	\$ -	\$ 44,065,000	\$ 23,480,000	
Remaining To Be Issued	\$ -	\$ -	\$ -	

*The Authority has no taxing power and thereby does not issue bonds supported by tax revenue.

Debt Service Fund cash and temporary investment balances as of September 30, 2016: \$1,512,454

Average annual debt service payment (Principal and Interest) for remaining term of all debt: \$1,714,605

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-7. Comparative Schedule of Revenues and Expenses-Enterprise Fund-Five Years Ended September 30

	Amounts					Percent of Total Revenues				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Operating Revenues:										
Member Assessments	\$ 6,622,653	\$ 6,185,810	\$ 6,753,978	\$ 5,890,764	\$ 6,044,748	100.0%	100.0%	100.0%	100.0%	100.0%
Sewer service	-	-	-	-	-	-	-	-	-	-
Application fees	-	-	-	-	-	-	-	-	-	-
Penalty and interest	-	-	-	-	-	-	-	-	-	-
Tap connection fees	-	-	-	-	-	-	-	-	-	-
Interest on time deposit	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	<u>6,622,653</u>	<u>6,185,810</u>	<u>6,753,978</u>	<u>5,890,764</u>	<u>6,044,748</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Operating Expenses:										
Personnel	578,682	538,235	509,193	463,302	473,001	8.7%	8.7%	7.5%	7.9%	7.8%
Professional fees	140,480	97,169	33,935	16,931	35,501	2.1%	1.6%	0.5%	0.3%	0.6%
Contracted services	5,667	11,484	47,932	63,632	38,839	0.1%	0.2%	0.7%	1.1%	0.6%
Repairs and Maintenance	136,750	49,169	86,109	37,200	76,445	2.1%	0.8%	1.3%	0.6%	1.3%
Utilities	1,059,645	923,081	827,789	741,225	775,736	16.0%	14.9%	12.3%	12.6%	12.8%
Material and supplies	1,348,863	1,306,352	1,149,550	1,514,514	1,076,417	20.4%	21.1%	17.0%	25.7%	17.8%
Other Expenses	219,433	198,028	120,736	133,427	111,718	3.3%	3.2%	1.8%	2.3%	1.8%
Depreciation	931,124	864,865	864,865	862,860	862,649	14.1%	14.0%	12.8%	14.7%	14.3%
Total Operating Expenses	<u>4,420,644</u>	<u>3,988,383</u>	<u>3,640,109</u>	<u>3,833,091</u>	<u>3,450,306</u>	<u>66.8%</u>	<u>64.5%</u>	<u>53.9%</u>	<u>65.1%</u>	<u>57.1%</u>
Operating Income (Loss)	<u>2,202,009</u>	<u>2,197,427</u>	<u>3,113,869</u>	<u>2,057,673</u>	<u>2,594,442</u>	<u>33.2%</u>	<u>35.5%</u>	<u>46.1%</u>	<u>34.9%</u>	<u>42.9%</u>
Non-Operating Revenues (Expenses)										
Interest revenue	38,350	25,277	28,113	18,236	18,076	-0.6%	-0.4%	-0.4%	-0.3%	-0.3%
Amortized bond issuance cost	(15,889)	(15,889)	(15,889)	(15,888)	(81,290)	0.2%	0.3%	0.3%	0.3%	1.3%
Interest Expense	(1,013,103)	(967,176)	(990,519)	(1,042,661)	(1,173,753)	15.3%	15.6%	14.7%	17.7%	19.4%
Other Non Operating Revenue (Expenses)	(35,701)	(7,413)	(27,887)	(44,543)	(3,156)		0.1%	0.4%	0.8%	0.1%
						0.5%				
Total Non-Operating Revenues (Expenses)	<u>(1,026,343)</u>	<u>(965,201)</u>	<u>(1,006,182)</u>	<u>(1,084,856)</u>	<u>(1,240,123)</u>	<u>15.5%</u>	<u>15.6%</u>	<u>14.9%</u>	<u>18.4%</u>	<u>20.5%</u>
Net Income (Loss)	<u>\$ 1,175,666</u>	<u>\$ 1,232,226</u>	<u>\$ 2,107,687</u>	<u>\$ 972,817</u>	<u>\$ 1,354,319</u>	<u>17.8%</u>	<u>19.9%</u>	<u>31.2%</u>	<u>16.5%</u>	<u>22.4%</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-8. Board Members, Key Personnel, and Consultants
For the Year Ending September 30, 2016

Complete Authority Mailing Address: P.O. Box 3270
Brownsville, TX 78523-3270

Authority Business Telephone
Number: (956) 350-8819

Submission Date of the most recent Authority Registration Form:
(TWC Sections 36.054 and 49.054): December 27, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000.00
(Set by Board Resolution-TWC Section 49.060)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid* 9/30/16	Expense Reimbursements 9/30/16	Title at 9/30/16
Board Members:				
Nurith Galonsky	December 2015	-	-	President
Hipolito Narvaez	February 2010	-	-	Vice-President
Roger Nelson	July 2016	-	-	Vice-President
Ralph Cowen	July 2012	-	-	Treasurer
Barbara Collum	November 2008	-	-	Secretary
John S. Bruciak	January 2000	-	-	Deputy Secretary/Treasurer
Administrative Personnel:				
John S. Bruciak	July 1979	-	-	General Manger & CEO
Leandro G. Garcia	June 2005	-	-	Chief Financial Officer
Fernando Saenz	July 2002	-	-	Assistant GM & COO
Marie Leal	November 2015	-	-	Director of W/WW Engineering, Planning, & Operations
Judy Adams	June 2004	-	-	Area Manager
Consultants:				
Davidson Troilo Ream & Garza, P.C.	September 2000	\$ 2,675		General Counsel
Andrews Kurth, L.L.P.	December 2012	\$ -		Bond Counsel
Estrada Hinojosa & Company	September 2006	\$ 15,000		Financial Advisor
Trevino & Bodden, L.L.P	November 2012	\$ 4,365		Legal Counsel
Norris Leal PLLC	September 2000	\$ 150		Engineer Consultant
*Fees of Office are the amounts actually paid to a Director during the Authority's fiscal year.				

Single Audit Section

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Southmost Regional Water Authority

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 business-type activities of Southmost Regional Water Authority (the Authority), a component unit of the Public Utilities Board of the City of Brownsville, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas

March 6, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors
Southmost Regional Water Authority

Report on Compliance for Each Major Federal Program

We have audited Southmost Regional Water Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Uniform Guidance* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas
March 6, 2017

SOUTHMOST REGIONAL WATER AUTHORITY
(A component unit of the Brownsville Public Utilities Board)
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended September 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

Type of report on financial statements	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements	None
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of report on compliance with major programs	Unmodified
Findings disclosed that are required to be reported in accordance with 200.516(a) of the Uniform Guidance?	None
Dollar threshold considered between Type A and Type B federal programs	\$750,000
Qualified as low risk auditee?	Yes
Major federal program	Texas Water Development Board Drinking Water State Revolving Fund CFDA#: 66.468

B. FINANCIAL STATEMENT FINDINGS

None

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

SOUTHMOST REGIONAL WATER AUTHORITY
(A component unit of the Brownsville Public Utilities Board)
Schedule of Prior Audit Year Findings
For The Fiscal Year Ended September 30, 2016

N/A – No prior findings

SOUTHMOST REGIONAL WATER AUTHORITY
(A component unit of the Brownsville Public Utilities Board)
Corrective Action Plan
For The Fiscal Year Ended September 30, 2016

N/A – No prior findings

SOUTHMOST REGIONAL WATER AUTHORITY
(A component unit of the Brownsville Public Utilities Board)
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA No.	Other Identifying No.	Expenditures
<u>Environmental Protection Agency Passed Through to</u> TEXAS WATER DEVELOPMENT BOARD			
<i>Series A & B – L090067 and L090068</i>	66.468	IUP61531	\$ 771,368
<u>Department of the Interior Passed Through to</u> THE BUREAU OF RECLAMATION			
<i>Secure Water Act</i>	15.507	R15AP00182	<u>17,841</u>
Total Expenditures of Federal Awards			<u>\$ 789,209</u>

SOUTHMOST REGIONAL WATER AUTHORITY
(A component unit of the Brownsville Public Utilities Board)
Notes to the Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended September 30, 2016

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) SIGNIFICANT ACCOUNTING POLICIES

Revenue from federal awards is recognized when everything necessary has been done to establish the right to revenue. Expenses of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement.

The Authority did not elect to use the 10% de minimis indirect cost rate.



P.O. Box 3270 Brownsville, TX 78523-3270
(956) 983-6100 Fax: (956) 983-6175