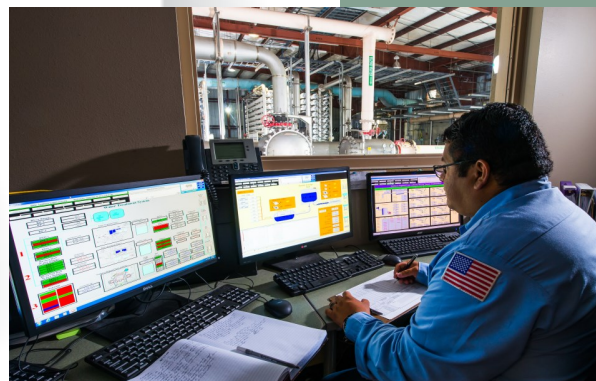




# **Annual Financial Report**

**For the Fiscal Years Ended September 30, 2017 & 2016**



*Front cover top, left to right:*

- 1.) SRWA employee collects information from the reverse osmosis system.*
- 2.) SRWA employee collects thermal images of microfiltration modules.*

*Front cover bottom, left to right:*

- 3.) SRWA employee collects water sample prior to the microfiltration treatment process for analysis.*
- 4.) SRWA provides 24-7 monitoring of the SCADA system and records process control data.*



**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, 2017 and 2016

Prepared by:  
Brownsville Public Utilities Board

# **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Brownville Public Utilities Board)*

## **Table of Contents**

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	Page
<b>Annual Filing Affidavit</b> .....	2
<b>Independent Auditors' Report</b> .....	4
<b>Management's Discussion and Analysis</b> .....	7
<b>Basic Financial Statements</b>	
Statements of Net Position .....	18
Statements of Revenues, Expenses, and Changes in Net Position .....	19
Statements of Cash Flow .....	20
Notes to the Basic Financial Statements .....	22
<b>Other Supplementary Information</b>	
Budgetary Comparison Schedule .....	39
<b>Texas Supplementary Information (TSI)</b>	
TSI-1. – Services and Rates (Not Required) .....	41
TSI-2. – Authority Expenses .....	42
TSI-3. – Temporary Investments .....	43
TSI-4. – Taxes Levied and Receivable (Not Required) .....	49
TSI-5. – Long-Term Debt Service Requirements by Years .....	50
TSI-6. – Changes in Long-Term Debt .....	51
TSI-7. – Comparative Schedule of Revenues and Expenses Enterprise Fund – Five Years .....	52
TSI-8. – Board Members, Key Personnel, and Consultants .....	52
<b>Compliance Section</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	52

# 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 5th day of March, 2018, its annual audit report for the fiscal period ended September 30, 2017 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.

## PRINCIPAL OFFICIALS

### ~ Board Members ~

Rafael E. Vela .....President  
Hipolito Narvaez.....Vice-President  
Roger Nelson .....Vice-President  
Ralph Cowen ..... Treasurer  
Barbara Collum..... Secretary  
John S. Bruciak, P.E. .... Deputy Secretary/Treasurer

### ~ Board Administration ~

John S. Bruciak, P.E. .... General Manager & CEO  
Fernando Saenz, P.E. .... Assistant General Manager & COO  
Leandro G. García, CPA ..... Chief Financial Officer

### ~ Consultants and Advisors ~

Andrews Kurth, LLP..... Houston, Texas  
Carr, Riggs, & Ingram, LLC..... Brownsville, Texas  
Davidson Troilo Ream & Garza, PC .....San Antonio, Texas  
Estrada Hinojosa & Company, Inc. ....Dallas, Texas  
Trevino & Bodden, LLP<sup>(1)</sup> ..... Brownsville, Texas

<sup>(1)</sup>No longer affiliated with the entity subsequent to the end of the fiscal year.

## **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, 2017 and 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 opinion 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, 2017 and 2016 and the changes in financial position and cash flows thereof for the years then ended in conformity 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 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 basic 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 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 23, 2018, 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, L.L.C.*

**CARR, RIGGS & INGRAM, LLC**

Brownsville, Texas

March 23, 2018

## Management's Discussion and Analysis

Management's Discussion and Analysis allows financial managers to share their insights by giving readers an objective analysis of the government's financial performance each year.

"This analysis should provide users with the information they need to help them assess whether the government's financial position has improved or deteriorated as a result of the year's operations".

*~ Governmental Accounting  
Standards Board,  
Statement No. 34*

## 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, 2017 and 2016. In accordance with Governmental 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 67<sup>th</sup> 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 \$1,296,291 or 10.14 percent.
- During the year, the Authority's operating revenues increased \$28,784 or 0.43 percent, and operating expenses increased by \$174,907 or 3.96 percent.
- Capital assets of the Authority decreased by \$646,715 or 1.74 percent under 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.

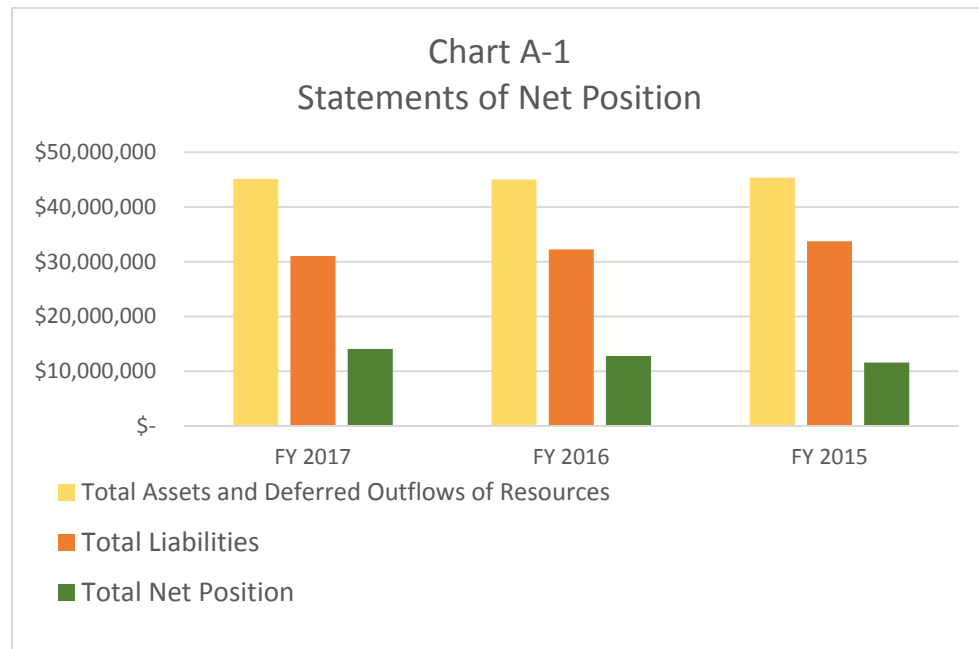
## **NET POSITION**

A summary of the Authority's Statements of Net Position are presented in Table A-1 and graphically in Chart A-1, respectively, on the following page.

*The remainder of this page intentionally left blank.*

TABLE A-1  
Statements of Net Position  
September 30, 2017, 2016 and 2015

	FY 2017	FY 2016	FY 2015
Current and Other Assets	\$ 7,526,099	\$ 6,872,945	\$ 6,868,199
Capital Assets	36,592,193	37,238,908	37,502,059
Total Assets	44,118,292	44,111,853	44,370,258
Deferred Outflows of Resources	1,013,498	926,279	977,996
Total Assets Plus Deferred Outflows of Resources	\$ 45,131,790	\$ 45,038,132	\$ 45,348,254
Current Liabilities	\$ 2,093,685	\$ 2,072,564	\$ 2,173,890
Long Term Liabilities	28,964,125	30,187,879	31,572,341
Total Liabilities	\$ 31,057,810	\$ 32,260,443	\$ 33,746,231
Net Investment in Capital Assets	\$ 6,278,069	\$ 5,726,030	\$ 5,076,694
Restricted	2,895,347	2,876,892	2,679,906
Unrestricted	4,900,564	4,174,767	3,845,423
Total Net Position	\$ 14,073,980	\$ 12,777,689	\$ 11,602,023



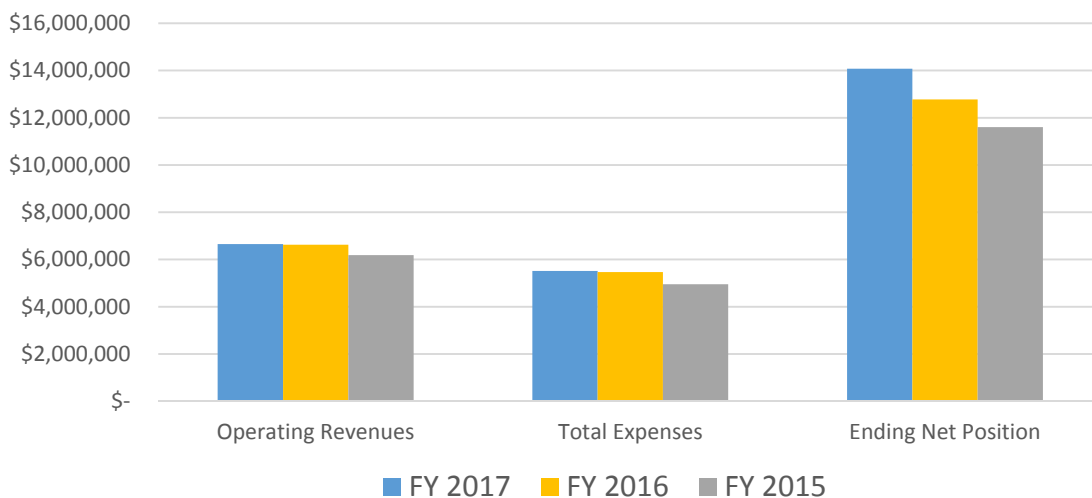
A review of the Statement of Net Position indicates a slight decrease of total assets of \$6,439 for FY 2017 as compared to FY 2016, and a decrease in total liabilities of \$1,202,633 for the same period. Additionally, total net position increased \$1,296,291 for FY 2017 as compared to FY 2016. The majority of the decrease in liabilities are in long-term liabilities. This is attributable to bond principal and interest payments, as well as savings from the bond refunding in the current year. Deferred outflows of resources increased overall \$87,219 in FY 2017 as a result of amortization of capitalized debt reacquisition costs plus new bond costs.

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

**TABLE A-2**  
Statements of Revenues, Expenses, and Changes in Net Position  
For Fiscal Years Ended September 30, 2017, 2016 and 2015

	FY 2017	FY 2016	FY 2015
Operating Revenues	\$ 6,651,437	\$ 6,622,653	\$ 6,185,810
Total Revenues	\$ 6,651,437	\$ 6,622,653	\$ 6,185,810
Depreciation Expense	\$ 1,244,517	\$ 931,124	\$ 864,865
Other Operating Expense	3,351,034	3,489,520	3,123,518
Non-Operating Expense	919,123	1,044,295	965,201
Total Expenses	\$ 5,514,674	\$ 5,464,939	\$ 4,953,584
Income before Capital Contribution	\$ 1,136,763	\$ 1,157,714	\$ 1,232,226
Capital Contributions	159,528	17,952	-
Change in Net Position	1,296,291	1,175,666	1,232,226
Beginning Net Position	12,777,689	11,602,023	10,369,797
Ending Net Position	\$ 14,073,980	\$ 12,777,689	\$ 11,602,023

**Chart A-2**  
Statements of Revenues, Expenses, and Changes in Net Position



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 \$28,784 and total operating and non-operating expenses increased by \$49,735 compared to prior fiscal year. The Authority incurred an increase in operating expense of approximately \$174,907 from FY 2016. This increase is due to an increase in depreciation expense of \$313,393. All other expense categories decreased \$138,486. The Authority incurred increases in operating expense in FY 2016 of approximately \$432,261 from FY 2015, of which the majority represented increases in overhead labor, utilities, chemicals, materials and supplies and maintenance expenses.

## **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 2017 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 2017 Budget	FY 2017 Actual	Variance
Revenues From Operations:			
Operating Revenues	\$ 4,003,191	\$ 4,003,191	\$ -
Total Revenues	\$ 4,003,191	\$ 4,003,191	\$ -
Operating Expenses:			
Personnel Services	\$ 584,029	\$ 583,848	\$ 181
Materials and Supplies	1,443,269	1,213,197	230,072
Repairs and Maintenance	162,662	122,195	40,467
Contractual and other services	1,813,231	1,431,794	381,437
Total Expenses	\$ 4,003,191	\$ 3,351,034	\$ 652,157
Operating Income	\$ -	\$ 652,157	\$ 652,157

The Operations and Maintenance Budget to Actual Comparison Schedule indicates that the Authority did not exceed budgeted expenses in any expense category for fiscal year 2017. The significant variance for contractual and other services represents a decrease in utilities of \$170,132, as well as significant savings in grounds keeping, equipment rental, and other services. The significant decrease in material and supplies is due to the decrease in the cost of chemicals.

## **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 2017 Debt Service obligation and Annual Systems Budget.



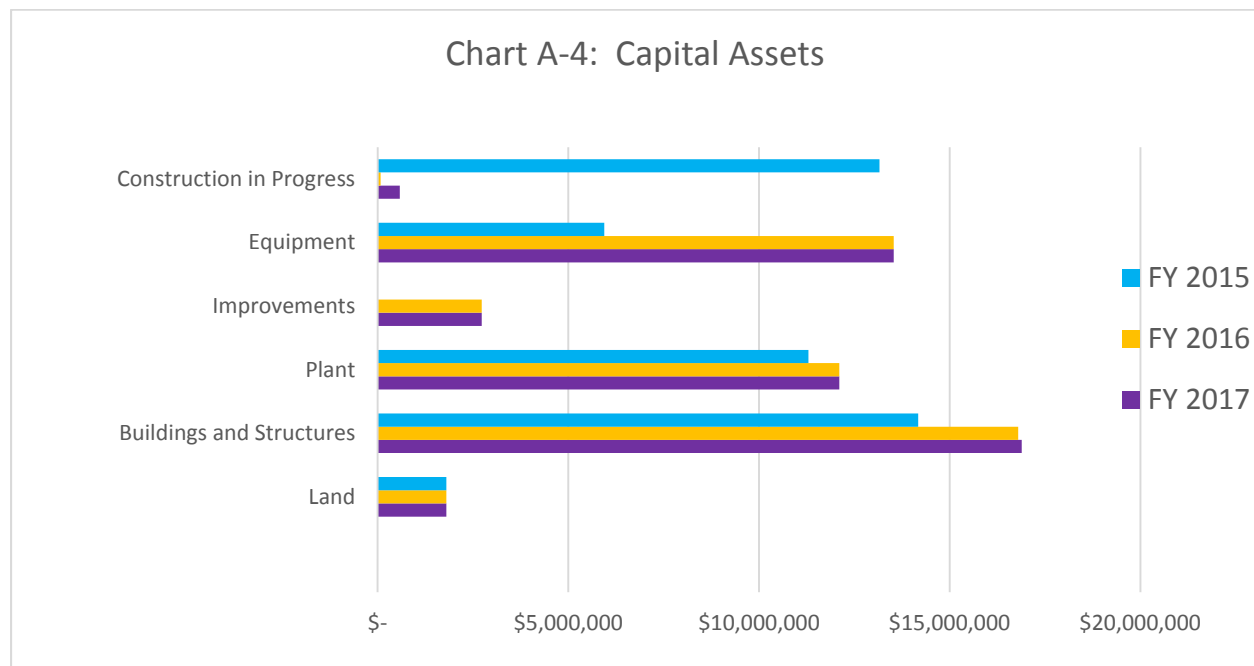
## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** At the end of FY 2017, the Authority's net investment in the Desalination Plant totaled \$36.6 million as shown in Table A-4, and graphically in Chart A-4 below.

TABLE A-4  
Capital Assets  
September 30, 2017, 2016 and 2015

	FY 2017	FY 2016	FY 2015
Land	\$ 1,802,935	\$ 1,802,935	\$ 1,802,935
Buildings and Structures	16,890,873	16,795,265	14,174,956
Plant	12,105,010	12,105,010	11,297,577
Improvements	2,731,230	2,731,230	-
Equipment	13,531,400	13,531,400	5,941,902
Construction in Progress	579,238	77,044	13,157,541
Subtotal	47,640,686	47,042,884	46,374,911
Less Accumulated Depreciation	(11,048,493)	(9,803,976)	(8,872,852)
Capital Assets, Net	<u>\$ 36,592,193</u>	<u>\$ 37,238,908</u>	<u>\$ 37,502,059</u>

Capital assets decreased slightly in FY 2017 by \$597,802 as compared to FY 2016, and increased by \$667,973 in FY 2016 from FY 2015. Construction on the Microfiltration Pretreatment System ended during FY 2016. Depreciation expense for FY 2017 and FY 2016 was \$1,244,517 and \$931,124, respectively. Additional information on the Authority's capital assets can be found in Note 6 on pages 30-31 of this report.



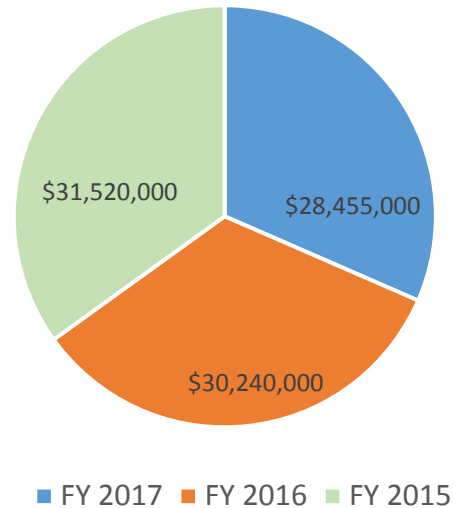
## **CAPITAL ASSETS AND DEBT ADMINISTRATION – Continued**

**Long-term debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$28.5 million. The bonds are secured solely by specified revenue sources.

Chart A-5: Outstanding Debt

TABLE A-5  
Outstanding Debt  
September 30, 2017, 2016 and 2015

	Revenue Bonds
FY 2017	\$ 28,455,000
FY 2016	\$ 30,240,000
FY 2015	\$ 31,520,000



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.

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.

On April 18, 2017, the Authority issued \$9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of \$725,245 were used to defease

\$9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

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 7 on pages 31-35 provides an explanation of the Authority's outstanding long-term debt as of September 30, 2017.

### **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.

## Basic Financial Statements

Basic Financial Statements provide financial information prepared using the economic resources measurement focus and the accrual basis of accounting.

Basic financial statements include:

- ✓ Statements of Net Position
- ✓ Statements of Revenues, Expenses, and Changes in Net Position
- ✓ Statements of Cash Flows
- ✓ Notes to the Basic Financial Statements
- ~ Governmental Accounting Standards Board

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**September 30, 2017 and 2016**

ASSETS	2017	2016
Current Assets:		
Cash - unrestricted	\$ 72,279	\$ 211,210
Cash - restricted	430,693	443,109
Investments - unrestricted	3,883,355	3,015,254
Investments - restricted	2,541,367	2,517,045
Due from governments	70,435	194,526
Interest receivable	16,206	11,754
Prepaid expense	33,513	36,621
Total Current Assets	<u>7,047,848</u>	<u>6,429,519</u>
Capital Assets:		
Capital assets, net of accumulated depreciation	36,592,193	37,238,908
Other Assets:		
Unamortized regulatory assets	478,251	443,426
Total Assets	<u>44,118,292</u>	<u>44,111,853</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	1,013,498	926,279
Total Deferred Outflows of Resources	<u>1,013,498</u>	<u>926,279</u>
Total Assets plus Deferred Outflows of Resources \$	<u>45,131,790</u>	<u>\$ 45,038,132</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 480,998	\$ 332,279
Accrued interest	76,713	83,262
Bonds payable - current redemption	1,350,000	1,325,000
Unearned revenues	185,974	332,023
Total Current Liabilities	<u>2,093,685</u>	<u>2,072,564</u>
Non-Current Liabilities:		
Bonds payable	27,105,000	28,915,000
Reoffering premium	2,186,211	1,601,708
Bond issue discount	(327,086)	(328,829)
Total Non-Current Liabilities	<u>28,964,125</u>	<u>30,187,879</u>
Total Liabilities	<u>31,057,810</u>	<u>32,260,443</u>
Net Position:		
Net investment in capital assets	6,278,069	5,726,030
Restricted for debt service	1,403,036	1,429,192
Restricted for capital projects	1,492,311	1,447,700
Unrestricted	4,900,564	4,174,767
Total Net Position	<u>14,073,980</u>	<u>12,777,689</u>
Total Liabilities and Net Position	<u>\$ 45,131,790</u>	<u>\$ 45,038,132</u>

See notes to Financial Statements

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Member assessments	\$ 6,651,437	\$ 6,622,653
Total Operating Revenues	<u>6,651,437</u>	<u>6,622,653</u>
 Operating Expenses:		
Personnel services	583,848	578,682
Materials and supplies	1,213,197	1,346,586
Repairs and maintenance	122,195	111,933
Contractual and other services	1,431,794	1,452,319
Depreciation expense	<u>1,244,517</u>	<u>931,124</u>
Total Operating Expenses	<u>4,595,551</u>	<u>4,420,644</u>
 Operating Income	2,055,886	2,202,009
 Non-Operating Revenues (Expenses):		
Non-operating revenues (expenses)	(7,637)	(53,653)
Interest from investments	63,937	38,350
Amortized regulatory asset	(3,826)	(15,889)
Interest expense	<u>(971,597)</u>	<u>(1,013,103)</u>
Net Non-Operating Revenues (Expenses)	<u>(919,123)</u>	<u>(1,044,295)</u>
 Income before capital contributions	1,136,763	1,157,714
 Capital contributions	<u>159,528</u>	<u>17,952</u>
 Change in Net Position	1,296,291	1,175,666
 Net position at beginning of year	<u>12,777,689</u>	<u>11,602,023</u>
Net position at end of year	\$ <u><u>14,073,980</u></u>	\$ <u><u>12,777,689</u></u>

See notes to Financial Statements

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOW**  
**For Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash received from members	\$ 6,629,478	\$ 7,347,939
Cash paid for services	<u>(3,046,942)</u>	<u>(3,805,783)</u>
Net cash provided by Operating Activities	<u>3,582,536</u>	<u>3,542,156</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on capital debt	(1,325,000)	(1,280,000)
Interest paid on capital debt	(978,145)	(1,016,734)
Acquisition and construction of capital assets	<u>(597,802)</u>	<u>(667,973)</u>
Net cash (used) in Capital and Related Financing Activities	<u>(2,900,947)</u>	<u>(2,964,707)</u>
Cash Flows from Investing Activities:		
Interest received	59,488	38,350
Purchase of investments	(3,180,756)	(3,678,732)
Sales of investments	<u>3,156,433</u>	<u>3,599,408</u>
Net cash provided by (used) in Investing Activities	<u>35,165</u>	<u>(40,974)</u>
Net increase (decrease) in cash	716,754	536,475
Cash and cash equivalents at beginning of year	<u>3,669,573</u>	<u>3,133,098</u>
Cash and cash equivalents at end of year	\$ <u>4,386,327</u>	\$ <u>3,669,573</u>
Reconciliation of Cash and Cash Equivalents:		
Cash - unrestricted	\$ 72,279	\$ 211,210
Cash - restricted	430,693	443,109
Pooled investments - unrestricted	<u>3,883,355</u>	<u>3,015,254</u>
Total cash	\$ <u>4,386,327</u>	\$ <u>3,669,573</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,055,886	\$ 2,202,009
Adjustments:		
Depreciation expense	1,244,517	931,124
Non-operating revenues (expenses)	152,264	(35,701)
Changes in assets and liabilities:		
Decrease (increase) in receivables	124,091	586,822
Decrease (increase) in prepaids	3,109	597
Increase (decrease) in accounts payable	148,719	(281,159)
Increase (decrease) in unearned revenues	<u>(146,050)</u>	<u>138,464</u>
Net cash provided by Operating Activities	\$ <u>3,582,536</u>	\$ <u>3,542,156</u>

- Continued

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOW - Continued**  
**For Years Ended September 30, 2017 and 2016**

	2017	2016
Non-cash investing, capital, and financing activities:		
Bond proceeds deposited into escrow for refunding long-term debt	\$ 9,804,338	\$ -
Changes in fair value	7,819	8,612

See notes to Financial Statements



# **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

## Notes to the Financial Statements September 30, 2017 and 2016

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Note 1 – Nature of Business .....	23
Note 2 – Summary of Significant Accounting Policies .....	23
Note 3 – Deposits and Investments.....	27
Note 4 – Related Party Transactions.....	30
Note 5 – Due from Governments.....	31
Note 6 – Capital Assets.....	31
Note 7 – Long-Term Debt.....	32
Note 8 – Unearned Revenue .....	36
Note 9 – Leases .....	36
Note 10 – Risk Management.....	36
Note 11 – Commitments and Contingencies .....	37
Note 12 – Pending GASB’s .....	37

# **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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## **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, 67<sup>th</sup> 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 statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

# **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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## **Note 2 – Summary of Significant Accounting Policies – Continued**

### **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:

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

### **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.

## **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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### **Note 2 – Summary of Significant Accounting Policies – Continued**

#### **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, 2017 and 2016.

#### **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 the remaining life of the refunding or the refunded debt. At September 30, 2017, and September 30, 2016, reacquisition costs totaled \$1.01 million and \$0.93 million, respectively.

## **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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### **Note 2 – Summary of Significant Accounting Policies – Continued**

#### **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. 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.

#### **14. Current Year GASB Statement Implementations**

In fiscal year 2017, there were no new GASB statements the Authority implemented.

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.

## **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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### **Note 2 – Summary of Significant Accounting Policies - Continued**

#### **15. 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 October 3, 2016, the Authority approved a revised Investment Policy for its investments. The carrying value of deposits with financial institutions approximates fair value.

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, 2017 TexPool, TexasDAILY, and TexStar had a weighted average maturity of 34 days, 28 days, and 36 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.

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 3 – Deposits and Investments – Continued**

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

<b>September 30, 2017</b>			
	<b>Amount</b>	<b>Weighted Avg Maturity (days)</b>	<b>Rating</b>
U.S. Treasury Note	\$ 554,629	39	AA+
Money Market Mutual Funds	313,039	1	AAAm
Certificate of Deposit	1,417,000	43	A1P1
Local Government Investment Pools	4,140,054	1	AAAm
Total	<u>\$ 6,424,722</u>		

<b>September 30, 2016</b>			
	<b>Amount</b>	<b>Weighted Avg Maturity (days)</b>	<b>Rating</b>
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>		

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.

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 2017 and FY 2016, 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.

# **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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## **Note 3 – Deposits and Investments – Continued**

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, 2017. 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***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 3 – Deposits and Investments – Continued**

		<b>September 30, 2017</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Fair Value Investments					
U.S. Treasuries		\$ 554,629	\$ -	\$ -	\$ 554,629
Total fair value investments		<u>\$ 554,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554,629</u>
		<b>September 30, 2016</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Fair Value Investments					
U.S. Treasuries		\$ 554,629	\$ -	\$ -	\$ 554,629
Total fair value investments		<u>\$ 554,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554,629</u>

**Note 4 – Related Party Transactions**

As of September 30, 2017 and 2016 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***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)***Notes to the Financial Statements  
September 30, 2017 and 2016****Note 5 – Due from Governments**

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Due from Members - Local Governments		
City of Los Fresnos	\$ 3,796	\$ 4,416
Town of Indian Lake	3,723	387
Brownsville Navigation District	3,496	-
Valley Municipal Utility District No. 2	4,178	4,861
Brownsville Public Utilities Board	-	167,021
	<u>15,193</u>	<u>176,685</u>
Due from Other Governments		
Bureau of Reclamation - Wellfield Monitoring Grant	55,242	17,841
Due from Governments	<u>\$ 70,435</u>	<u>\$ 194,526</u>

**Note 6 – Capital Assets**

Changes in the Authority's capital assets for the year ended September 30, 2017, were as follow:

	Balance at 10/01/2016	Additions	Deletions	Reclassifications	Balance at 09/30/2017
Capital assets, non-depreciable:					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	77,044	502,194	-	-	579,238
Total capital assets, non-depreciable	<u>1,879,979</u>	<u>502,194</u>	<u>-</u>	<u>-</u>	<u>2,382,173</u>
Capital assets, depreciable:					
Plant	12,105,010	-	-	-	12,105,010
Buildings and structures	16,795,265	95,608	-	-	16,890,873
Improvements	2,731,230	-	-	-	2,731,230
Equipment	13,531,400	-	-	-	13,531,400
Total capital assets, depreciable	<u>45,162,905</u>	<u>95,608</u>	<u>-</u>	<u>-</u>	<u>45,258,513</u>
Less accumulated depreciation for:					
Plant	(3,010,639)	(297,188)	-	-	(3,307,827)
Buildings and structures	(4,502,248)	(447,788)	-	-	(4,950,036)
Improvements	(9,104)	(54,625)	-	-	(63,729)
Equipment	(2,281,985)	(444,916)	-	-	(2,726,901)
Total accumulated depreciation	<u>(9,803,976)</u>	<u>(1,244,517)</u>	<u>-</u>	<u>-</u>	<u>(11,048,493)</u>
Capital assets, net	<u>\$ 37,238,908</u>	<u>\$ (646,715)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,592,193</u>

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 6 – Capital Assets – Continued**

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

	Balance at 10/01/2015	Additions	Deletions	Reclassifications	Balance at 09/30/2016
Capital assets, non-depreciable:					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	13,157,541	556,784	-	(13,637,281)	77,044
Total capital assets, non-depreciable	14,960,476	556,784	-	(13,637,281)	1,879,979
Capital assets, depreciable:					
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, depreciable	31,414,435	111,189	-	13,637,281	45,162,905
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	(8,872,852)	(931,124)	-	-	(9,803,976)
Capital assets, net	\$ 37,502,059	\$ (263,151)	\$ -	\$ -	\$ 37,238,908

**Note 7 – Long-Term Debt**

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. The Water Supply Contract Revenue Refunding Bonds 2006 Series were issued to refund a portion of this series 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

## **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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### **Note 7 – Long-Term Debt – Continued**

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.

On October 18, 2012, 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.

#### ***Current Refunding***

On April 18, 2017, the Southmost Regional Water Authority issued \$9,255,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bonds were issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032. 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 \$154,884. This amount together with \$492,816 unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2032. The Public Utilities Board completed the advance refunding to reduce its total debt service payments over the next 18 years by \$898,007 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$692,682.

#### ***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, 2017 and 2016, the amount of defeased debt outstanding but removed from long-term debt amounted to \$0 and \$0.

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 7 – Long-Term Debt – Continued**

Revenue bond balance and activity for the year ended September 30, 2017, are as follows:

	<b>Balance at 10/01/2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at 09/30/2017</b>	<b>Due Within One Year</b>
\$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 rates from 4.0% to 5.5% .	\$ 9,765,000	\$ -	\$ (9,740,000)	\$ 25,000	\$ 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% .	7,125,000	-	(310,000)	6,815,000	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 rates from 0.10% to 4.25% .	2,790,000	-	(165,000)	2,625,000	175,000
\$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 rates from 3.0% to 5.0%	10,560,000	-	(825,000)	9,735,000	840,000
\$9,255,000 Water Supply Contract Revenue Refunding Bonds, Series 2017; due in remaining annual installments ranging from \$935,000 to \$1,795,000 through 2032 with interest rates from 3.0% to 4.0% .	-	9,255,000	-	9,255,000	-
Total Long-Term Debt	\$ 30,240,000	\$ 9,255,000	\$ (11,040,000)	\$ 28,455,000	\$ 1,350,000
Plus:					
Unamortized Premium	1,601,708	725,245	(140,742)	2,186,211	
Less:					
Unamortized Original Issue Discount	(328,829)	(58,354)	60,097	(327,086)	
	<u>\$ 31,512,879</u>	<u>\$ 9,921,891</u>	<u>\$ (11,120,645)</u>	<u>\$ 30,314,125</u>	<u>\$ 1,350,000</u>

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 7 – Long-Term Debt – Continued**

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

	<u>Balance at 10/01/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 09/30/2016</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 rates 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 rates 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 rates from 3.0% to 5.0%	<u>11,345,000</u>	<u>-</u>	<u>(785,000)</u>	<u>10,560,000</u>	<u>825,000</u>
Total Long-Term Debt	\$ 31,520,000	\$ -	\$ (1,280,000)	\$ 30,240,000	\$ 1,325,000
Plus:					
Unamortized Premium	1,678,420	-	(76,713)	1,601,708	-
Less:					
Unamortized Original Issue Discount	<u>(346,079)</u>	<u>-</u>	<u>17,249</u>	<u>(328,829)</u>	<u>-</u>
	<u>\$ 32,852,341</u>	<u>\$ -</u>	<u>\$ (1,339,464)</u>	<u>\$ 31,512,879</u>	<u>\$ 1,325,000</u>

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*Notes to the Financial Statements  
September 30, 2017 and 2016**Note 7 – Long-Term Debt – Continued**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30:			
2018	\$ 1,350,000	\$ 920,555	\$ 2,270,555
2019	1,425,000	872,805	2,297,805
2020	1,435,000	839,805	2,274,805
2021	1,485,000	787,070	2,272,070
2022	1,545,000	731,538	2,276,538
2023 - 2027	8,650,000	2,738,025	11,388,025
2028 - 2032	10,400,000	1,057,800	11,457,800
2033 - 2037	1,550,000	-	1,550,000
2038 - 2042	615,000	-	615,000
	<u>\$ 28,455,000</u>	<u>\$ 7,947,598</u>	<u>\$ 36,402,598</u>

**Note 8 – Unearned Revenues**

Member assessments collected in advance are deferred and recognized when the assessments are earned. At September 30, 2017, and 2016, unearned revenue totaled \$185,974, and \$332,023, respectively.

**Note 9 – 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 rent 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 10 – 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, Wethe & Associates, was contracted for consulting services in FY 2017. Wethe & Associates has determined adequate insurance retentions for the Authority based on insurable values and the market for each line of coverage.

## **SOUTHMOST REGIONAL WATER AUTHORITY**

*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)*

Notes to the Financial Statements  
September 30, 2017 and 2016

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### **Note 10 – Risk Management - Continued**

The insurable value for the Authority in FY 2016 was \$40,726,700 and increased to \$41,264,292 for FY 2017. The premium for FY 2017 was \$65,340 and \$71,161 for FY 2016.

### **Note 11 – Commitments and Contingencies**

The Authority had \$219,969 and \$309,960 in construction commitments at September 30, 2017 and 2016, respectively.

### **Note 12 – Pending GASBs**

As of September 30, 2017, 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. 81, *Irrevocable Split-Interest Agreements*;
- GASB Statement No. 83, *Certain Asset Retirement Obligations*;
- GASB Statement No. 84, *Fiduciary Activities*;
- GASB Statement No. 85, *Omnibus 2017*;
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*;
- GASB Statement No. 87, *Leases*.

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



## Required Supplementary Information

Budgetary compliance is an important component of government's accountability.

"While water district budgets are not 'legally adopted' within the meaning of GASB 34, they are adopted according to Texas law. To conform with this law and to establish a consistent reporting format, all water districts...must present their budget comparison on this schedule."

~ TCEQ Water District  
Financial Management  
Guide

"Requiring governments to report their original budgets in addition to their *revised* budget adds a new analytical dimension and increases the usefulness of the budgetary comparison."

~ Governmental Accounting  
Standards Board,  
Statement No. 34

**SOUTHMOST REGIONAL WATER AUTHORITY***(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)***Budgetary Comparison Schedule  
For the year ended September 30, 2017**

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Income:			
Member Contributions:			
Brownsville PUB	\$ 6,170,629	\$ 6,170,629	\$ -
Valley Municipal Utility District #2	170,216	170,216	-
City of Los Fresnos	154,618	154,618	-
Brownsville Navigation District	142,412	142,412	-
Town of Indian Lake	13,562	13,562	-
Total Member Contributions	6,651,437	6,651,437	-
Interest Income	-	63,937	63,937
Total Income	6,651,437	6,715,374	63,937
Expense:			
Operating Expenses:			
Personnel services	584,029	583,848	181
Materials and supplies	1,460,519	1,213,197	247,322
Repairs and maintenance	162,662	122,195	40,467
Contractual and other services	1,795,981	1,431,794	364,187
Non-Operating Expenses:			
Interest Expense	999,141	971,597	27,544
Non-Operating Expense	-	7,637	(7,637)
Total Expenses	5,002,332	4,330,268	672,064
Net Income (Loss)	\$ 1,649,105 <sup>1</sup>	2,385,106	\$ 736,001
Depreciation Expense Not Budgeted		(1,244,517)	
Amortized Regulatory Asset Not Budgeted		(3,826)	
Capital Contributions		159,528	
Change in Net Position		\$ 1,296,291	

<sup>1</sup> Represents principal payment on long-term debt of \$1,325,000;  
O&M reserve allocation of \$9,926; and capital budget of \$314,179.

## Texas Supplementary Information

“All districts other than TSI exempt districts must prepare and present Texas Supplementary Information, TSI-1 through TSI-8, after the notes to the Basic Financial Statements.”

~ TCEQ Water District  
Financial Management  
Guide

The Authority is not required to present the following schedules:

TSI-1: Services and Rates Schedule  
TSI-4: Taxes Levied and Receivable

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-2. Authority Expenses**  
**For the Year Ended September 30, 2017**

<b>Personnel Expenses</b> (including benefits)	\$ 583,848
<b>Professional Fees:</b>	
Auditing	10,000
Legal	26,362
Engineering	38,782
Financial Advisor	15,000
Other Consulting Services	85,871
<b>Purchased Services For Resale:</b>	
Bulk Water and Wastewater Service Purchases	-
<b>Contracted Services:</b>	
Bookkeeping	-
General Manager	-
Appraisal District	-
Tax Collector	-
Other Contracted Expenses	75,018
<b>Utilities</b>	1,029,868
<b>Repairs and Maintenance</b>	122,195
<b>Administrative Expenses:</b>	
Directors Fees	-
Office Supplies	3,010
Insurance	72,302
Other Administrative Expenses	49,625
<b>Depreciation Expense</b>	1,244,517
<b>Capital Outlay:</b>	
Capitalized Assets	-
Expenses not Capitalized	-
<b>Tap Connection Expenses</b>	-
<b>Solid Waste Disposal</b>	-
<b>Amortized Regulatory Asset</b>	3,826
<b>Interest Expense</b>	971,597
<b>Other Expenses</b>	1,246,790
<b>TOTAL EXPENSES</b>	\$ 5,578,611

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-3. Temporary Investments**  
**For the Year Ended September 30, 2017**

Funds	ID or Certification Number	Interest Rate	Maturity Date	Balance at Year End	Accrued Interest Rec at Year End
U.S. Treasury Note	912828ue8	1.15%	12/31/2017	\$ 554,629	\$ 8,884
TexPool	78762	1.18%	N/A	583,174	-
US Bank	7576002480	0.85%	N/A	30,217	-
US Bank	135463000	0.85%	N/A	111,294	-
US Bank	200804000	0.85%	N/A	60,859	-
US Bank	135463001	0.85%	N/A	49,596	-
US Bank		0.85%	N/A	61,073	
Texas Daily	Texasdaily	1.21%	N/A	3,556,880	-
Texas TERM CD Program	Texasterm	1.52%	07/25/2018	245,000	
Texas TERM CD Program	Texasterm	1.25%	02/21/2018	246,000	1,862
Texas TERM CD Program	Texasterm	1.62%	07/02/2018	680,000	2,773
Texas TERM CD Program	Texasterm	1.30%	02/21/2018	246,000	2,687
Total				<u>\$ 6,424,722</u>	<u>\$ 16,206</u>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(Series 2006) – by Years**  
**For the Year Ended September 30, 2017**

DUE DURING FISCAL YEARS ENDING	Series 2006		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2018	\$ 25,000	\$ 1,375	\$ 26,375
	\$ <u>25,000</u>	\$ <u>1,375</u>	\$ <u>26,375</u>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(Series 2009A) – by Years - Continued**  
**For the Year Ended September 30, 2017**

DUE DURING FISCAL YEARS ENDING	Series 2009A		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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>\$ 6,815,000</u>	<u>\$ -</u>	<u>\$ 6,815,000</u>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(Series 2009B) – by Years - Continued**  
**For the Year Ended September 30, 2017**

DUE DURING FISCAL YEARS ENDING	Series 2009B		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2018	\$ 175,000	\$ 96,680	\$ 271,680
2019	180,000	92,305	272,305
2020	190,000	87,355	277,355
2021	195,000	81,370	276,370
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	42,865	282,865
2027	250,000	33,025	283,025
2028	260,000	22,525	282,525
2029	270,000	11,475	281,475
	<u>\$ 2,625,000</u>	<u>\$ 722,473</u>	<u>\$ 3,347,473</u>



**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(Series 2012) – by Years - Continued**  
**For the Year Ended September 30, 2017**

DUE DURING FISCAL YEARS ENDING	Series 2012		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2018	\$ 840,000	\$ 461,650	\$ 1,301,650
2019	0	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>\$ 9,735,000</u>	<u>\$ 2,815,850</u>	<u>\$ 12,550,850</u>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(Series 2017) – by Years - Continued**  
**For the Year Ended September 30, 2017**

DUE DURING FISCAL YEARS ENDING	Series 2017		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
2018	\$ -	\$ 360,850	\$ 360,850
2019	935,000	360,850	1,295,850
2020	-	332,800	332,800
2021	-	332,800	332,800
2022	-	332,800	332,800
2023	-	332,800	332,800
2024	-	332,800	332,800
2025	-	332,800	332,800
2026	-	332,800	332,800
2027	-	332,800	332,800
2028	1,540,000	332,800	1,872,800
2029	1,600,000	271,200	1,871,200
2030	1,660,000	207,200	1,867,200
2031	1,725,000	140,800	1,865,800
2032	1,795,000	71,800	1,866,800
	<u>\$ 9,255,000</u>	<u>\$ 4,407,900</u>	<u>\$ 13,662,900</u>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-5. Long-Term Debt Service Requirements**  
**(All Debt Series) – by Years**  
**For the Year Ended September 30, 2017**

Annual Requirements for All Series				
DUE DURING FISCAL YEARS ENDING	Principal Due 09/01	Interest Due 03/01, 09/01	Total	
2018	\$ 1,350,000	\$ 920,555	\$	2,270,555
2019	1,425,000	872,805		2,297,805
2020	1,435,000	839,805		2,274,805
2021	1,485,000	787,070		2,272,070
2022	1,545,000	731,538		2,276,538
2023	1,605,000	672,965		2,277,965
2024	1,665,000	611,155		2,276,155
2025	1,730,000	546,265		2,276,265
2026	1,805,000	477,565		2,282,565
2027	1,845,000	430,075		2,275,075
2028	2,110,000	355,325		2,465,325
2029	2,180,000	282,675		2,462,675
2030	1,970,000	207,200		2,177,200
2031	2,035,000	140,800		2,175,800
2032	2,105,000	71,800		2,176,800
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
	\$ 28,455,000	\$ 7,947,598	\$	36,402,598

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-6. Changes in Long-Term Debt**  
**For the Year Ended September 30, 2017**

	<u>Revenue Bond Issues</u>				
	<u>Series 2006</u>	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2012</u>	<u>Series 2017</u>
Interest Rate	3.7 - 5.5%	0.00%	0.1 - 4.25%	3.0 - 5.0%	3.0% - 4.0%
Dates Interest Payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity Dates	09/01/2032	09/01/2039	09/01/2029	09/01/2027	09/01/2032
Beginning Bonds Outstanding	\$ 9,765,000	\$ 7,125,000	\$ 2,790,000	\$ 10,560,000	\$ -
Bonds Sold During the Fiscal Year	-	-	-	-	9,225,000
Bonds Retired During the Fiscal Year	<u>(9,740,000)</u>	<u>(310,000)</u>	<u>(165,000)</u>	<u>(825,000)</u>	<u>-</u>
Ending Bonds Outstanding	<u>\$ 25,000</u>	<u>\$ 6,815,000</u>	<u>\$ 2,625,000</u>	<u>\$ 9,735,000</u>	<u>\$ 9,225,000</u>
Interest Paid During the Fiscal Year	\$ 231,201	\$ -	\$ 100,234	\$ 476,777	\$ 163,385
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>	<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	<u>\$ -</u>	<u>\$ 44,065,000</u>	<u>\$ 23,480,000</u>		
Remaining To Be Issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

\*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, 2017: \$1,479,749

Average annual debt service payment (Principal and Interest) for remaining term of all debt: \$1,654,664

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

	Amounts					Percent of Total Revenues				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
<b>Operating Revenues:</b>										
Member Assessments	\$ 6,651,437	\$ 6,622,653	\$ 6,185,810	\$ 6,753,978	\$ 5,890,764	100.0%	100.0%	100.0%	100.0%	100.0%
Sewer service	-	-	-	-	-	-	-	-	-	-
Application fees	-	-	-	-	-	-	-	-	-	-
Penalty and interest	-	-	-	-	-	-	-	-	-	-
Tap connection fees	-	-	-	-	-	-	-	-	-	-
Interest on time deposit	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>6,651,437</b>	<b>6,622,653</b>	<b>6,185,810</b>	<b>6,753,978</b>	<b>5,890,764</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Operating Expenses:</b>										
Personnel	583,848	578,682	538,235	509,193	463,302	8.8%	8.7%	8.7%	7.5%	7.9%
Professional fees	176,015	140,480	97,169	33,935	16,931	2.6%	2.1%	1.6%	0.5%	0.3%
Contracted services	75,018	5,667	11,484	47,932	63,632	1.1%	0.1%	0.2%	0.7%	1.1%
Repairs and Maintenance	122,195	136,750	49,169	86,109	37,200	1.8%	2.1%	0.8%	1.3%	0.6%
Utilities	1,029,868	1,059,645	923,081	827,789	741,225	15.5%	16.0%	14.9%	12.3%	12.6%
Material and supplies	1,213,197	1,348,863	1,306,352	1,149,550	1,514,514	18.2%	20.4%	21.1%	17.0%	25.7%
Other Expenses	150,893	219,433	198,028	120,736	133,427	2.3%	3.3%	3.2%	1.8%	2.3%
Depreciation	1,244,517	931,124	864,865	864,865	862,860	18.7%	14.1%	14.0%	12.8%	14.7%
<b>Total Operating Expenses</b>	<b>4,595,551</b>	<b>4,420,644</b>	<b>3,988,383</b>	<b>3,640,109</b>	<b>3,833,091</b>	<b>69.1%</b>	<b>66.8%</b>	<b>64.5%</b>	<b>53.9%</b>	<b>65.1%</b>
<b>Operating Income (Loss)</b>	<b>2,055,886</b>	<b>2,202,009</b>	<b>2,197,427</b>	<b>3,113,869</b>	<b>2,057,673</b>	<b>30.9%</b>	<b>33.2%</b>	<b>35.5%</b>	<b>46.1%</b>	<b>34.9%</b>
<b>Non-Operating Revenues (Expenses)</b>										
Interest revenue	63,937	38,350	25,277	28,113	18,236	-1.0%	-0.6%	-0.4%	-0.4%	-0.3%
Amortized regulatory asset	(3,826)	(15,889)	(15,889)	(15,889)	(15,888)	0.1%	0.2%	0.3%	0.3%	0.3%
Interest Expense	(971,597)	(1,013,103)	(967,176)	(990,519)	(1,042,661)	14.6%	15.3%	15.6%	14.7%	17.7%
Other Non Operating Revenue	(7,637)	(53,653)	(7,413)	(27,887)	(44,543)			0.1%	0.4%	0.8%
(Expenses)						0.1%	0.8%			
<b>Total Non-Operating Revenues</b>	<b>(919,123)</b>	<b>(1,044,295)</b>	<b>(965,201)</b>	<b>(1,006,182)</b>	<b>(1,084,856)</b>	<b>13.8%</b>	<b>15.8%</b>	<b>15.6%</b>	<b>14.9%</b>	<b>18.4%</b>
<b>Income before Capital Contributions</b>	<b>1,136,763</b>	<b>1,157,714</b>	<b>1,232,226</b>	<b>2,107,687</b>	<b>972,817</b>	<b>17.1%</b>	<b>17.5%</b>	<b>19.9%</b>	<b>31.2%</b>	<b>16.5%</b>
<b>Capital Contributions</b>	<b>159,528</b>	<b>17,952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.4%</b>	<b>0.3%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>\$ 1,296,291</b>	<b>\$ 1,175,666</b>	<b>\$ 1,232,226</b>	<b>\$ 2,107,687</b>	<b>\$ 972,817</b>	<b>19.5%</b>	<b>17.8%</b>	<b>19.9%</b>	<b>31.2%</b>	<b>16.5%</b>

**SOUTHMOST REGIONAL WATER AUTHORITY**  
**TSI-8. Board Members, Key Personnel, and Consultants**  
**For the Year Ended September 30, 2017**

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): April 21, 2017

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* 09/30/2017	Expense Reimbursements 09/30/2017	Title at 09/30/2017
<b>Board Members:</b>				
Rafael Vela	December 2016	\$ -	\$ -	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
<b>Administrative Personnel:</b>				
John S. Bruciak	July 1979	\$ -	\$ -	General Manager & 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, & Operation
Judy Adams	June 2004	-	-	Area Manager
<b>Consultants:</b>				
Davidson Troilo Ream & Garza, P.C.	September 2000	\$ 22,559	\$ -	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. <sup>(1)</sup>	November 2012	-	-	Legal Counsel
Carr, Riggs, & Ingram, LLC	September 2013	10,000	-	External Auditors

\*Fees of Office are the amounts actually paid to a Director during the Authority's fiscal year.

<sup>(1)</sup> No longer affiliated with the entity subsequent to the end of the fiscal year.

**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, 2017, 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 23, 2018.

**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 23, 2018





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