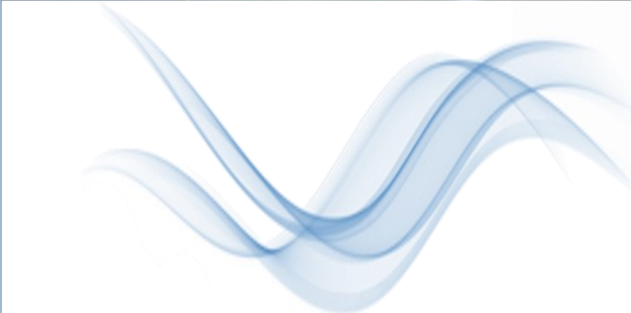
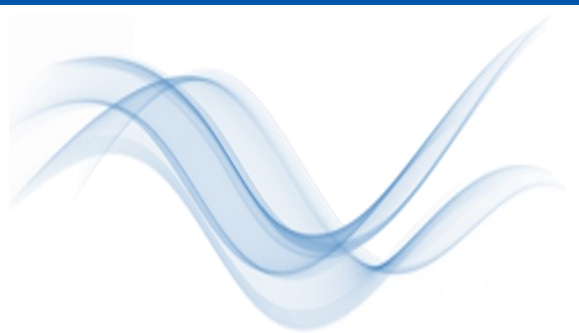




Annual Financial Report

For the Fiscal Years Ended September 30, 2020 & 2019





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, 2020 and 2019

Prepared by:
Brownsville Public Utilities Board

SOUTHMOST REGIONAL WATER AUTHORITY

(A Component Unit of the Brownville Public Utilities Board)

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS }
COUNTY OF Cameron }

I, Miguel Angel Perez, of the
(Name of Duly Authorized Authority Representative)

Southmost Regional Water Authority
(Name of Authority)

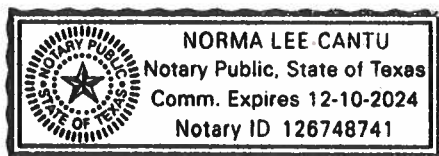
hereby swear, or affirm, that the Authority above has reviewed and approved at a meeting of the Authority's Board of Directors on the 8th day of February, 2021, its annual audit report for the fiscal period ended September 30, 2020 and that copies of the annual audit report have been filed in the Authority's 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: February 9, 2021 By: Miguel Angel Perez
(Signature of Authority Representative)

Miguel Angel Perez, Acting Chief Financial Officer
(Typed Name and Title of Authority Representative)

Sworn to and subscribed to before me this 9th day of February, 2021.



Norma Lee Cantu
(Signature of Notary)

My Commission Expires On: December 10, 2024.
Notary Public in the State of Texas.

PRINCIPAL OFFICIALS

~ Southmost Regional Water Authority Board Members ~



Jude Benavidez
President



Roger Nelson
Vice-President



Hipolito L. Narvaez
Treasurer



Ralph Cowen
Secretary



John S. Bruciak, P.E.
Deputy Secretary/Treasurer



James A. Chambers
Member

~ Brownsville Public Utilities Board Administration ~



John S. Bruciak, P.E.
General Manager & CEO



Fernando Saenz, P.E.
Assistant GM & COO



Leandro G. García, CPA
Chief Financial Officer

~ Consultants and Advisors ~

Orrick, Herrington & Sutcliffe, LLP..... Houston, Texas
Baker Tilly US, LLP Austin, Texas
Davidson Troilo Ream & Garza, PC San Antonio, Texas
Estrada Hinojosa & Company, Inc. Dallas, Texas

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southmost Regional Water Authority
Brownsville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Southmost Regional Water Authority, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Southmost Regional Water 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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 over financial reporting relevant to the Southmost Regional Water Authority'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 Southmost Regional Water Authority'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 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 Southmost Regional Water Authority as of September 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule as listed in the table of contents 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Texas supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated February 1, 2021 on our consideration of the Southmost Regional Water 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 solely 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 the effectiveness of the Southmost Regional Water Authority's 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 Southmost Regional Water Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Austin, Texas
February 1, 2021

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 (GASB)*

MANAGEMENT’S DISCUSSION AND ANALYSIS – (Unaudited)

The management of the Southmost Regional Water Authority (Authority) offers readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended on September 30, 2020 and 2019. Readers are encouraged to consider the information presented here 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 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 \$1,532,732 or 9.0 percent.
- During the year, the Authority's operating revenues decreased \$8,102 or 0.1 percent, and operating expenses decreased by \$75,711 or 1.6 percent.
- Capital assets (net) of the Authority decreased by \$548,720 or 1.6 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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.

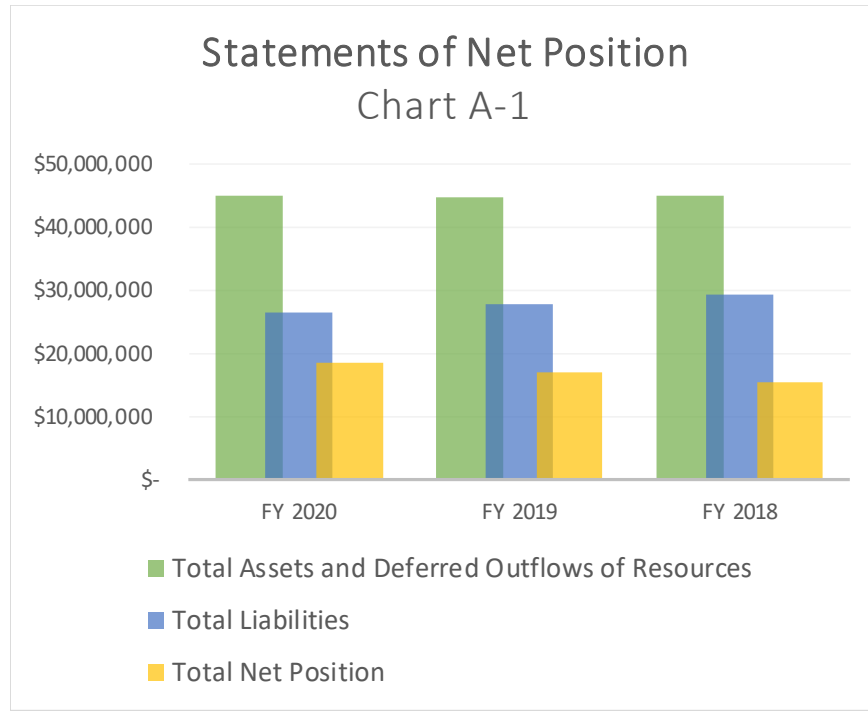
FINANCIAL ANALYSIS

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 below and graphically in Chart A-1 on the following page.

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A review of the Statement of Net Position indicates an increase of total assets of \$258,865 for FY 2020 as compared to FY 2019, and a decrease in total liabilities of \$1,362,328 for the same period. Additionally, total net position increased \$1,532,732 for FY 2020 as compared to FY 2019. The majority of the decrease in liabilities are in long-term liabilities. This is attributable to bond principal and interest payments. Deferred outflows of resources decreased overall \$88,461 in FY 2020 as a result of amortization of capitalized debt reacquisition costs.

In FY 2019, the Statement of Net Position indicates a slight increase of total assets of \$14,664 for FY 2019 as compared to FY 2018, and a decrease in total liabilities of \$1,624,295 for the same period. Additionally, total net position increased \$1,550,499 for FY 2019 as compared to FY 2018. The majority of the decrease in liabilities are in long-term liabilities. This is attributable to bond principal and interest payments. Deferred outflows of resources decreased overall \$88,460 in FY 2019 as a result of amortization of capitalized debt reacquisition 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, on the following page.

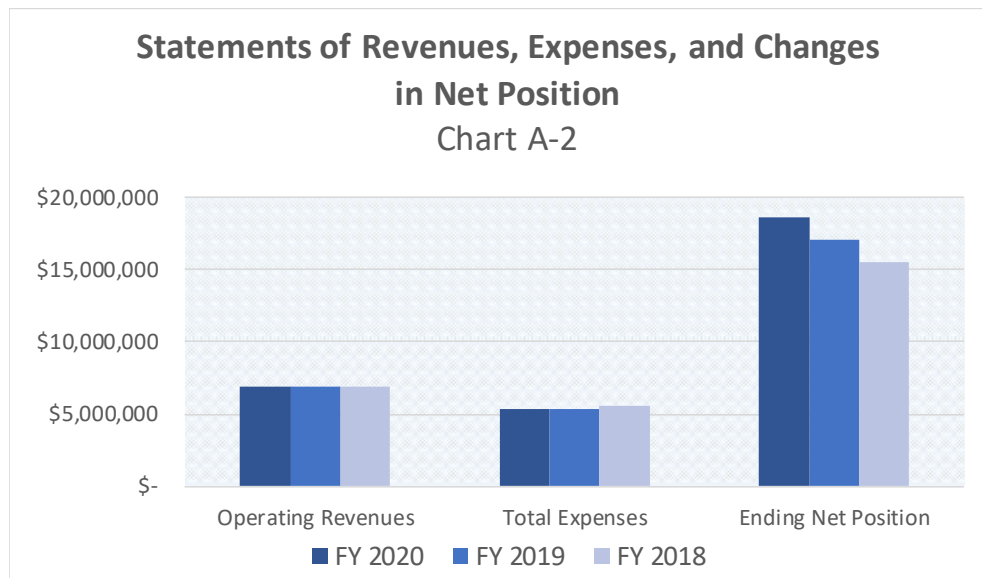
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Statements of Revenues, Expenses, and Changes in Net Position

For Fiscal Years Ended September 30, 2020, 2019 and 2018

TABLE A-2

	FY 2020	FY 2019	FY 2018	Change 2020 vs. 2019		Change 2019 vs. 2018	
Operating Revenues	\$ 6,899,420	\$ 6,907,522	\$ 6,936,183	\$ (8,102)	-0.1%	\$ (28,661)	-0.4%
Total Revenues	\$ 6,899,420	\$ 6,907,522	\$ 6,936,183	\$ (8,102)	-0.1%	\$ (28,661)	-0.4%
Depreciation Expense	\$ 1,287,437	\$ 1,276,262	\$ 1,250,362	\$ 11,175	0.9%	\$ 25,900	2.1%
Other Operating Expense	3,353,539	3,440,425	3,572,989	(86,886)	-2.5%	(132,564)	-3.7%
Net Non-Operating Expense	725,712	640,336	783,122	85,376	13.3%	(142,786)	-18.2%
Total Expenses	\$ 5,366,688	\$ 5,357,023	\$ 5,606,473	\$ 9,665	0.2%	\$ (249,450)	-4.4%
Income before Capital Contribution	\$ 1,532,732	\$ 1,550,499	\$ 1,329,710	\$ (17,767)	-1.1%	\$ 220,789	16.6%
Capital Contributions	-	-	123,831	-	0.0%	(123,831)	-100.0%
Change in Net Position	1,532,732	1,550,499	1,453,541	(17,767)	-1.2%	96,958	6.7%
Beginning Net Position	17,078,020	15,527,521	14,073,980	1,550,499	10.0%	1,453,541	10.3%
Ending Net Position	\$ 18,610,752	\$ 17,078,020	\$ 15,527,521	\$ 1,532,732	9.0%	\$ 1,550,499	10.0%



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 in FY 2020 decreased by \$8,102 and total operating and non-operating expenses increased slightly by \$9,665 compared to FY 2019. The Authority incurred a decrease in operating expenses of approximately \$75,711 from FY 2019. This decrease is due primarily to a decrease in materials and supplies and personnel services.

Member assessments in FY 2019 decreased by \$28,661 and total operating and non-operating expenses decreased by \$249,450 compared to FY 2018. The Authority incurred a decrease in operating expenses of approximately \$106,664 from FY 2018. This decrease is due primarily to a decrease in materials and supplies and repairs and maintenance.

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 2020 Budget comparison schedule is presented as supplementary information and not reported on nor shown in the financial statement section of this report.

Operations and Maintenance (Only)

Budget vs. Actual

TABLE A-3

	FY 2020 Budget	FY 2020 Actual	Variance
Revenues From Operations:			
Operating Revenues	\$ 4,074,615	\$ 4,074,615	\$ -
Total Revenues	<u>\$ 4,074,615</u>	<u>\$ 4,074,615</u>	<u>\$ -</u>
Operating Expenses:			
Personnel Services	\$ 669,057	\$ 583,318	\$ 85,739
Materials and Supplies	1,293,366	854,652	438,714
Repairs and Maintenance	247,513	306,957	(59,444)
Contractual and other services	1,864,679	1,608,612	256,067
Total Expenses	<u>\$ 4,074,615</u>	<u>\$ 3,353,539</u>	<u>\$ 721,076</u>
Operating Income	<u>\$ -</u>	<u>\$ 721,076</u>	<u>\$ (721,076)</u>

The Operations and Maintenance Budget to Actual Comparison Schedule indicates that the Authority only exceeded budgeted expenses in repairs and maintenance for fiscal year 2020. The significant variance for materials and supplies represents mainly the cost of chemicals for the plant. The Authority usage of chemicals was less than projected for the year. The significant variance in contractual and other services is due to a decrease in utility expenses and in engineering fees.

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 2020 Debt Service obligation and Annual Systems Budget. All participating members were assessed and contributed their allocated portion in all past fiscal years.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At the end of FY 2020, the Authority's net investment in the Desalination Plant totaled \$34.3 million as shown in Table A-4, and graphically in Chart A-4 on the following page.

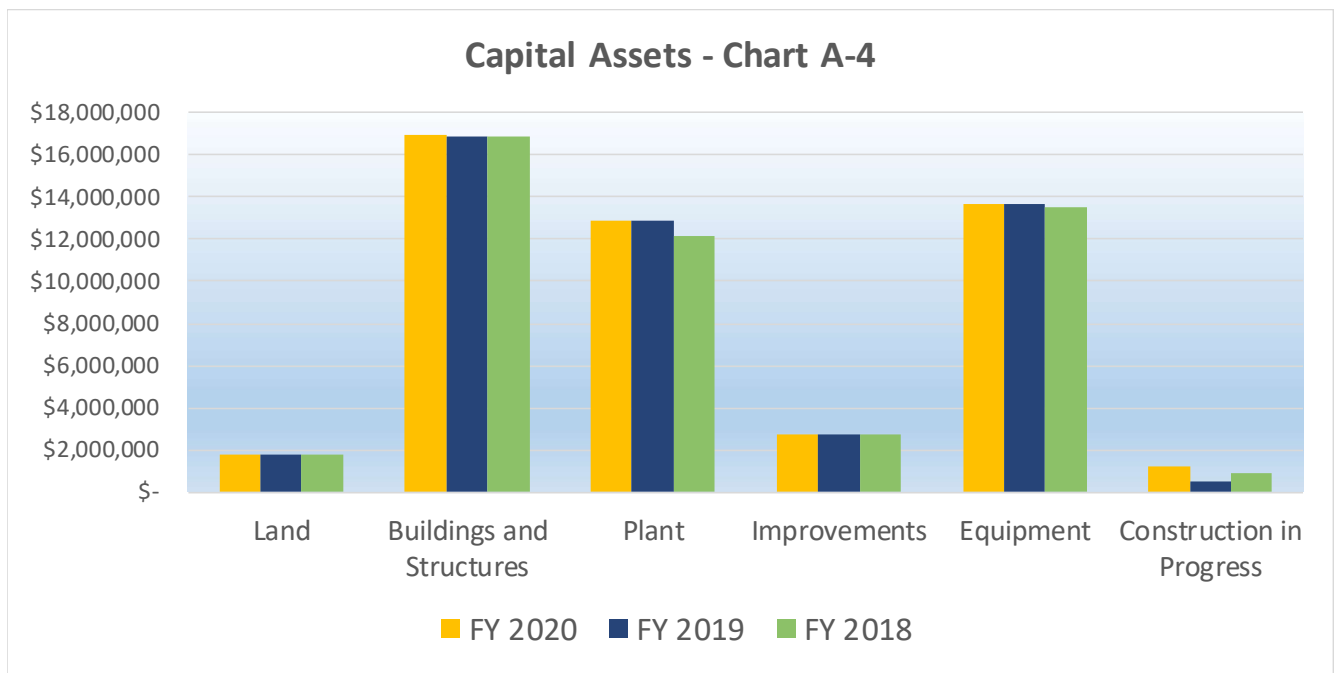
Capital Assets

September 30, 2020, 2019 and 2018

TABLE A-4

	FY 2020	FY 2019	FY 2018	Change 2020 vs. 2019		Change 2019 Vs. 2018	
Land	\$ 1,802,935	\$ 1,802,935	\$ 1,802,935	\$ -	0.0%	\$ -	0.0%
Buildings and Structures	16,911,505	16,890,873	16,890,873	20,632	0.1%	-	0.0%
Plant	12,847,354	12,847,354	12,156,896	-	0.0%	690,458	5.7%
Improvements	2,731,230	2,731,230	2,731,230	-	0.0%	-	0.0%
Equipment	13,648,619	13,648,619	13,541,796	-	0.0%	106,823	0.8%
Construction in Progress	1,221,798	503,713	907,632	718,085	142.6%	(403,919)	-44.5%
Subtotal	49,163,441	48,424,724	48,031,362	738,717	1.5%	393,362	0.8%
Less: Accumulated Depreciation	(14,841,406)	(13,553,969)	(12,277,707)	(1,287,437)	9.5%	(1,276,262)	10.4%
Capital Assets, Net	<u>\$ 34,322,035</u>	<u>\$ 34,870,755</u>	<u>\$ 35,753,655</u>	<u>\$ (548,720)</u>	-1.6%	<u>\$ (882,900)</u>	-2.5%

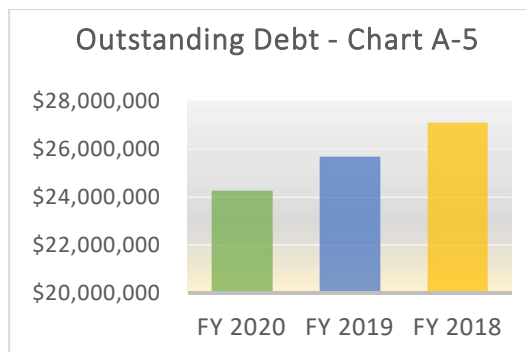
Capital assets decreased slightly in FY 2020 by \$548,720 as compared to FY 2019 and decreased by \$882,900 in FY 2019 from FY 2018. Decreases can be attributed to an increase in depreciation expense. Depreciation expense for FY 2020 and FY 2019 was \$1,287,437 and \$1,276,262, respectively. Additional information on the Authority's capital assets can be found in Note 6 of this report.



Long-term debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$24.2 million. The bonds are secured solely by specified revenue sources.

Outstanding Debt
September 30, 2020, 2019 and 2018
TABLE A-5

	Revenue Bonds
FY 2020	\$ 24,245,000
FY 2019	\$ 25,680,000
FY 2018	\$ 27,105,000



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 was 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 was to control and reduce iron levels to eliminate complaints of colored water. Project objectives also included 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 provides an explanation of the Authority's outstanding long-term debt as of September 30, 2020.

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 (GASB)

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF NET POSITION
September 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets:		
Cash - unrestricted	\$ 206,602	\$ 64,421
Investments - unrestricted	4,039,652	3,238,736
Investments - restricted	917,837	906,239
Due from governments and other sources	21,473	21,498
Interest receivable	23,761	30,436
Prepaid expense	43,509	31,503
Total Current Assets	5,252,834	4,292,833
Non-Current Assets:		
Cash - restricted	318,369	26,720
Investments - restricted	3,990,299	4,399,593
Capital assets, net of accumulated depreciation	34,322,035	34,870,755
Unamortized regulatory assets	373,939	408,710
Total Non-Current Assets	39,004,642	39,705,778
Total Assets	44,257,476	43,998,611
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	748,117	836,578
Total Deferred Outflows of Resources	748,117	836,578
Total Assets plus Deferred Outflows of Resources	\$ 45,005,593	\$ 44,835,189
LIABILITIES AND NET POSITION		
Current Liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 427,794	\$ 219,830
Unearned revenues	189,339	189,567
Total Current Unrestricted Liabilities	617,133	409,397
Payable from restricted assets:		
Accrued interest	65,589	69,984
Bonds payable - current redemption	1,485,000	1,435,000
Total Current Restricted Liabilities	1,550,589	1,504,984
Total Current Liabilities	2,167,722	1,914,381
Non-Current Liabilities:		
Bonds payable	22,760,000	24,245,000
Reoffering premium	1,731,966	1,883,381
Bond issue discount	(264,847)	(285,593)
Total Non-Current Liabilities	24,227,119	25,842,788
Total Liabilities	26,394,841	27,757,169
Net Position:		
Net investment in capital assets	9,358,032	8,429,545
Restricted for debt service	1,514,521	1,486,819
Restricted for capital projects	3,646,396	3,775,748
Unrestricted	4,091,803	3,385,908
Total Net Position	18,610,752	17,078,020
Total Liabilities and Net Position	\$ 45,005,593	\$ 44,835,189

See Notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues:		
Member assessments	\$ 6,899,420	\$ 6,907,522
Total Operating Revenues	<u>6,899,420</u>	<u>6,907,522</u>
Operating Expenses:		
Personnel services	583,318	612,196
Materials and supplies	854,652	1,215,305
Repairs and maintenance	306,957	59,803
Contractual and other services	1,608,612	1,553,121
Depreciation expense	1,287,437	1,276,262
Total Operating Expenses	<u>4,640,976</u>	<u>4,716,687</u>
Operating Income	2,258,444	2,190,835
Non-Operating Revenues (Expenses):		
Non-operating revenues (expenses)	(11,828)	(7,356)
Interest from investments	114,089	229,638
Amortization of regulatory asset, loss on refunding, and premium and discount	7,437	7,437
Interest expense	(835,410)	(870,055)
Net Non-Operating Revenues (Expenses)	<u>(725,712)</u>	<u>(640,336)</u>
Change in Net Position	1,532,732	1,550,499
Net position at beginning of year	17,078,020	15,527,521
Net position at end of year	<u>\$ 18,610,752</u>	<u>\$ 17,078,020</u>

See Notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOW
For Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Cash received from members	\$ 6,899,218	\$ 6,934,267
Cash paid for services	(3,169,409)	(3,509,487)
Net cash provided by Operating Activities	<u>3,729,809</u>	<u>3,424,780</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on capital debt	(1,435,000)	(1,425,000)
Interest paid on capital debt	(839,805)	(872,805)
Acquisition and construction of capital assets	(738,717)	(393,362)
Net cash (used) in Capital and Related Financing Activities	<u>(3,013,522)</u>	<u>(2,691,167)</u>
Cash Flows from Investing Activities:		
Interest received	120,764	220,461
Purchase of investments	(8,170,700)	(10,007,800)
Sales of investments	8,901,244	9,970,288
Net cash provided by Investing Activities	<u>851,308</u>	<u>182,949</u>
Net increase in cash	1,567,595	916,562
Cash and cash equivalents at beginning of year	4,784,482	3,867,920
Cash and cash equivalents at end of year	<u>\$ 6,352,077</u>	<u>\$ 4,784,482</u>
Reconciliation of Cash and Cash Equivalents:		
Cash	\$ 524,971	\$ 91,141
Short-term Investments and Money Market Funds	5,827,106	4,693,341
Total cash	<u>\$ 6,352,077</u>	<u>\$ 4,784,482</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,258,444	\$ 2,190,835
Adjustments:		
Depreciation expense	1,287,437	1,276,262
Non-operating revenues (expenses)	(11,828)	(7,357)
Changes in assets and liabilities:		
Decrease (increase) in receivables	26	28,662
Decrease (increase) in prepaids	(12,006)	2,255
Increase (decrease) in accounts payable	207,964	(63,960)
Increase (decrease) in unearned revenues	(228)	(1,917)
Net cash provided by Operating Activities	<u>\$ 3,729,809</u>	<u>\$ 3,424,780</u>

- Continued

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOW - Continued
For Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Non-cash investing, capital, and financing activities:		
Changes in fair value	\$ 3,224	\$ 11,034

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, 2020 and 2019

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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, 2020 and 2019

Note 1 – Nature of Business

The Southmost Regional Water Authority (“Authority”), a component unit of the Public Utilities Board of the City of Brownsville (“Public Utilities Board”), 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.

The Authority is reported as a blended component unit of the Public Utilities Board because the Public Utilities Board manages the day-to-day operations and owns 92.91% of the Authority. This entitles the Public Utilities Board to 92.91% of the total water allocation.

The Authority is comprised of six participants. 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 the By-laws. The directors serve a two-year term of office beginning on June 1 of odd-numbered years, or will continue to serve until a successor is appointed. Since the Public Utilities Board receives more than fifty percent of the water supplied by the Authority, the director representing the Public Utilities Board holds the majority interest and must be present for a quorum and must vote in favor for motions to pass.

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

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.

2. 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.

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, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies – Continued

3. Cash and Cash Equivalents

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

4. 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.

5. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

6. 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. These include accounts for capital improvement and debt service. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable columns in the Note 6 – Capital Assets. All capital assets are valued at historical cost or estimated acquisition value at the time of contribution. 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 twelve months.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used for depreciation purposes are presented as follows:

<u>Classification</u>	<u>Range of lives</u>
Water plant-in-service	10 to 50 years
Buildings	10 to 50 years
Improvements other than buildings	40 years
Equipment	3 to 40 years

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, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies – Continued

8. Capital Contributions

Capital contributions consist of contributions in aid of construction and/or grant proceeds received from governmental agencies. Capital contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Position as non-operating revenues when eligibility requirements are met.

9. 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 Cod. Sec. Re10, *Regulated Operations*. The amount at September 30, 2020 and 2019, was \$373,939 and \$408,710, respectively.

10. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

For current and advance refunding 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, 2020, and September 30, 2019, reacquisition costs totaled \$748,117 and \$836,578, respectively.

11. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority had no deferred inflows of resources to report at September 30, 2020 and 2019.

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, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies – Continued

12. 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.

13. 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.

14. Amortization

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method, which approximates effective interest method. Debt issuance costs are classified as a regulatory asset. See item 9 above for Regulatory Basis Asset information.

15. 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.

16. 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.

17. GASB Statement Implementations

In fiscal year 2019, the following GASB statement became effective:

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placement*.

These statements had no significant impact on the Authority's financial statements. Enhanced note disclosure regarding GASB Statement No. 88 can be found in Note 7, Long-term debt.

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, 2020 and 2019

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 were entirely covered by the Federal Deposit Insurance Corporation. On September 19, 2019, the Authority approved a revised Investment Policy for its investments. The carrying value of deposits with financial institutions approximates fair value.

The Authority invests in TexPool, TexasDAILY, and TexasTERM CD Purchase Program to provide its liquidity needs. TexPool and TexasDAILY 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, 2020, TexPool and TexasDAILY had a weighted average maturity of 38 days, and 57 days respectively. The Authority's external investment pools meet the criteria described in GASB Cod. Sec. In5, *Investment Pools (External)*, and measure all of their investments at amortized cost; therefore in accordance with GASB Cod. Sec. I50, *Investments*, the Authority has also measured their investments in these external investment pools at amortized cost for financial reporting purposes. In addition, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

The TexasTERM CD Purchase Program offers investments in FDIC-insured CDs from banks throughout the United States. Investments are for a minimum of ninety days and a maximum of one year, with a minimum balance required. Each CD investment is held in the name of the participant. The TexasTERM CD Purchase Program has a weighted average maturity of 35 days, and is rated AAAf by Fitch and AAakf by Kroll.

As of September 30, the Authority reported the following deposits:

	September 30,	
	2020	2019
Cash	\$ 524,971	\$ 91,141
Certificates of Deposits (Non-negotiable)	2,464,000	974,000
	<u>\$ 2,988,971</u>	<u>\$ 1,065,141</u>

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 fair 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 fair value of the principal portion.

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

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, 2020 and 2019**Note 3 – Deposits and Investments – Continued**

	September 30, 2020			
	Amount	Weighted Avg Maturity (days)	Allocation	Rating
U.S. Treasury Note	\$ 656,681	9	10%	
Money Market Mutual Funds	196,401	48	3%	AAAm
Local Government Investment Pools				
Tex Pool	803,994	38	12%	AAAm
Tex Daily	4,826,712	57	74%	AAAm
Total	<u>\$ 6,483,788</u>		<u>100%</u>	

	September 30, 2019			
	Amount	Weighted Avg Maturity (days)	Allocation	Rating
U.S. Treasury Note	\$ 627,227	122	8%	
Money Market Mutual Funds	235,286	38	3%	AAAm
Local Government Investment Pools				
Tex Term	2,250,000	51	30%	AAAf
Tex Pool	1,078,435	34	14%	AAAm
Tex Daily	3,379,620	32	45%	AAAm
Total	<u>\$ 7,570,568</u>		<u>100%</u>	

Interest rate 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 investments. 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 rate risk (investments) – In accordance with the Authority’s Investment Policy, investment pools must be rated no lower than AAA or AAAm with a weighted average maturity no greater than 90 days and any other obligations shall be rated “A” or better. For FY 2020 and FY 2019, 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+.

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.

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, 2020 and 2019**Note 3 – Deposits and Investments – Continued**

Fair Value measurement – The Authority records assets and liabilities in accordance with GASB Cod. Sec. 3100, *Fair Value Measurement*, 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, GASB Cod. Sec. 3100 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, 2020 and 2019. Investment balances presented exclude amounts related to money market mutual fund investments and external investment pools accounted for using amortized cost.

Fair Value Measurements:

September 30, 2020				
	Level 1	Level 2	Level 3	Total
Fair Value Investments				
U.S. Treasuries	\$ 656,681	\$ -	\$ -	\$ 656,681
Total fair value investments	\$ 656,681	\$ -	\$ -	\$ 656,681
September 30, 2019				
	Level 1	Level 2	Level 3	Total
Fair Value Investments				
U.S. Treasuries	\$ 627,227	\$ -	\$ -	\$ 627,227
Total fair value investments	\$ 627,227	\$ -	\$ -	\$ 627,227

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, 2020 and 2019**Note 4 – Related Party Transactions**

The structure of the Authority includes five territories located in Brownsville and surrounding cities. A 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. Each participating entity is accorded a percentage of interest.

The members and their 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>

Note 5 – Due from Governments and Other Sources

	September 30,	
	2020	2019
Due from Members - Local Governments		
City of Los Fresnos	\$ 4,317	\$ 4,322
Town of Indian Lake	8,427	8,437
Brownsville Navigation District	3,976	3,981
Valley Municipal Utility District No. 2	4,753	4,758
	<u>\$ 21,473</u>	<u>\$ 21,498</u>

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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, 2020 and 2019

Note 6 – Capital Assets

Changes in the Authority's capital assets for the year ended September 30, 2020, were as follows:

	Balance at 10/01/2019	Additions	Deletions	Reclassifications	Balance at 09/30/2020
<i>Capital assets, non-depreciable:</i>					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	503,713	738,717	-	(20,632)	1,221,798
Total capital assets, non-depreciable	2,306,648	738,717	-	(20,632)	3,024,733
<i>Capital assets, depreciable:</i>					
Plant	12,847,354	-	-	-	12,847,354
Buildings and structures	16,890,873	-	-	20,632	16,911,505
Improvements	2,731,230	-	-	-	2,731,230
Equipment	13,648,619	-	-	-	13,648,619
Total capital assets, depreciable	46,118,076	-	-	20,632	46,138,708
<i>Less accumulated depreciation:</i>					
Plant	(3,916,807)	(321,762)	-	-	(4,238,569)
Buildings and structures	(5,848,300)	(449,280)	-	-	(6,297,580)
Improvements	(172,979)	(54,625)	-	-	(227,604)
Equipment	(3,615,883)	(461,770)	-	-	(4,077,653)
Total accumulated depreciation	(13,553,969)	(1,287,437)	-	-	(14,841,406)
Capital assets, net	\$ 34,870,755	\$ (548,720)	\$ -	\$ -	\$ 34,322,035

Changes in the Authority's capital assets for the year ended September 30, 2019, were as follows:

	Balance at 10/01/2018	Additions	Deletions	Reclassifications	Balance at 09/30/2019
<i>Capital assets, non-depreciable:</i>					
Land	\$ 1,802,935	\$ -	\$ -	\$ -	\$ 1,802,935
Construction in progress	907,632	326,539	-	(730,458)	503,713
Total capital assets, non-depreciable	2,710,567	326,539	-	(730,458)	2,306,648
<i>Capital assets, depreciable:</i>					
Plant	12,156,896	-	-	690,458	12,847,354
Buildings and structures	16,890,873	-	-	-	16,890,873
Improvements	2,731,230	-	-	-	2,731,230
Equipment	13,541,796	66,823	-	40,000	13,648,619
Total capital assets, depreciable	45,320,795	66,823	-	730,458	46,118,076
<i>Less accumulated depreciation for:</i>					
Plant	(3,605,135)	(311,672)	-	-	(3,916,807)
Buildings and structures	(5,399,168)	(449,132)	-	-	(5,848,300)
Improvements	(118,354)	(54,625)	-	-	(172,979)
Equipment	(3,155,050)	(460,833)	-	-	(3,615,883)
Total accumulated depreciation	(12,277,707)	(1,276,262)	-	-	(13,553,969)
Capital assets, net	\$ 35,753,655	\$ (882,900)	\$ -	\$ -	\$ 34,870,755

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, 2020 and 2019**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 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.

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

Revenue bond balances for the year ended September 30, 2020, and 2019, are as follows:

Series	Series Description	Original Borrowing	Installment Amounts		Interest Rates to Maturity	Final Maturity	Outstanding at 9/30/20	Outstanding at 9/30/19
			From	To				
2009	Revenue Bonds (Series A)*	\$ 9,295,000	\$ 305,000	- \$ 310,000	0.0%	2039	\$ 5,885,000	\$ 6,195,000
2009	Revenue Bonds (Series B)*	\$ 3,795,000	\$ 190,000	- \$ 270,000	0.1% - 4.25%	2029	2,080,000	2,270,000
2012	Water Supply Contract Revenue	\$ 13,530,000	\$ 935,000	- \$ 1,285,000	3.0% - 5.0%	2027	7,960,000	8,895,000
	Refunding Bonds							
2017	Water Supply Contract Revenue	\$ 9,255,000	\$ 1,540,000	- \$ 1,795,000	4.125% - 5.5%	2032	8,320,000	8,320,000
	Refunding Bonds							
							<u>\$ 24,245,000</u>	<u>\$ 25,680,000</u>

* Direct Placement Bonds

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, 2020 and 2019

Note 7 – Long-Term Debt – Continued

Revenue bond balances and activity for the year ended September 30, 2020, and 2019, are as follows:

	Beg. Balance 10/1/2019	Additions	Reductions/ Amortization	End Balance 9/30/2020	Due Within One Year
Revenue Bonds	\$ 17,215,000	\$ -	\$ (935,000)	\$ 16,280,000	\$ 980,000
Direct Placement Bonds	8,465,000	-	(500,000)	7,965,000	505,000
Unamortized Premium	1,883,381	-	(151,415)	1,731,966	
Unamortized Discount	(285,593)	-	20,746	(264,847)	
Total Bonds Payable, Net	<u>\$ 27,277,788</u>	<u>\$ -</u>	<u>\$ (1,565,669)</u>	<u>\$ 25,712,119</u>	<u>\$ 1,485,000</u>

	Beg. Balance 10/1/2018	Additions	Reductions/ Amortization	End Balance 9/30/2019	Due Within One Year
Revenue Bonds	\$ 18,150,000	\$ -	\$ (935,000)	\$ 17,215,000	\$ 935,000
Direct Placement Bonds	9,135,000	-	(490,000)	8,465,000	500,000
Unamortized Premium	2,034,796	-	(151,415)	1,883,381	
Unamortized Discount	(306,340)	-	20,747	(285,593)	
Total Bonds Payable, Net	<u>\$ 29,013,456</u>	<u>\$ -</u>	<u>\$ (1,555,668)</u>	<u>\$ 27,277,788</u>	<u>\$ 1,435,000</u>

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

	Revenue Bonds			Direct Placement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
Year ending September 30:						
2021	\$ 980,000	\$ 705,700	\$ 1,685,700	\$ 505,000	\$ 81,370	\$ 586,370
2022	1,030,000	656,700	1,686,700	515,000	74,838	589,838
2023	1,085,000	605,200	1,690,200	520,000	67,765	587,765
2024	1,135,000	550,950	1,685,950	530,000	60,205	590,205
2025	1,190,000	494,200	1,684,200	540,000	52,065	592,065
2026 - 2030	7,340,000	1,642,950	8,982,950	2,570,000	109,890	2,679,890
2031 - 2035	3,520,000	212,600	3,732,600	1,550,000	-	1,550,000
2036 - 2039	-	-	-	1,235,000	-	1,235,000
	<u>\$ 16,280,000</u>	<u>\$ 4,868,300</u>	<u>\$ 21,148,300</u>	<u>\$ 7,965,000</u>	<u>\$ 446,133</u>	<u>\$ 8,411,133</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, 2020 and 2019

Note 7 – Long-Term Debt – Continued

Direct Placement Bonds

As of September 30, 2020, direct placement bonds with the Texas Water Development Board (TWDB) consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of \$5,885,000 and \$2,080,000, respectively. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

As of September 30, 2019, direct placement bonds with the Texas Water Development Board consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of \$6,195,000 and \$2,270,000, respectively. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

Note 8 – Unearned Revenues

Member assessments collected in advance are deferred and recognized when the assessments are earned. At September 30, 2020, and 2019, unearned revenue totaled \$189,339, and \$189,567, 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, Arthur J. Gallagher & Co, was contracted for consulting services in FY 2020. Arthur J. Gallagher & Co has determined reasonable 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 2019 was \$42,360,859, and increased to \$42,920,022 for FY 2020. The premium for FY 2020 was \$84,938 and \$63,006 for FY 2019.

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, 2020 and 2019

Note 11 – Commitments and Contingencies

The Authority had \$1,306,412 and \$515,006 unexpended in construction commitments at September 30, 2020 and 2019, respectively.

Member contracts are from March 3, 2003 for a term of thirty (30) years and thereafter until payment in full of the principal, premium, if any, and interest on all bonds issued during the initial term and all related fees to be paid pursuant to any bond resolution or indenture securing such bonds.

Note 12 – Pending GASBs

As of September 30, 2020, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements are as follows:

- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 87, *Leases*;
- GASB Statement No. 89, *Accounting for Interest Costs Incurred before the end of a Construction Period*;
- GASB Statement No. 90, *Majority Equity Interests*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

The statements listed above through Statement No 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87, which was postponed by one and a half years. Management is evaluating these pending GASB statements to determine what, if any, impact will be to the Authority.

Required Supplementary Information (Unaudited)

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 to 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 (GASB)

SOUTHMOST REGIONAL WATER AUTHORITY*(A Component Unit of the Public Utilities Board of the City of Brownsville, Texas)***Budgetary Comparison Schedule (Unaudited)
For the year ended September 30, 2020**

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Income:			
Member Contributions:			
Brownsville PUB	\$ 6,410,252	\$ 6,410,252	\$ -
Valley Municipal Utility District #2	173,175	173,175	-
City of Los Fresnos	157,307	157,307	-
Brownsville Navigation District	144,888	144,888	-
Town of Indian Lake	13,798	13,798	-
Total Member Contributions	6,899,420	6,899,420	-
Interest Income	-	114,089	114,089
Total Income	6,899,420	7,013,509	114,089
Expense:			
Operating Expenses:			
Personnel services	669,057	583,318	85,739
Materials and supplies	1,293,366	854,652	438,714
Repairs and maintenance	297,513	306,957	(9,444)
Contractual and other services	1,814,679	1,608,612	206,067
Non-Operating Expenses:			
Interest Expense	839,805	835,410	4,395
Non-Operating Expense	-	11,828	(11,828)
Total Expenses	4,914,420	4,200,777	713,643
Net Income (Loss)	<u>\$ 1,985,000</u>	<u>2,812,732</u>	<u>\$ 827,732</u>
Depreciation Expense Not Budgeted		(1,287,437)	
Amortized Regulatory Asset Not Budgeted		7,437	
Capital Contributions (Not Budgeted)		-	
Change in Net Position		<u>\$ 1,532,732</u>	

¹ Represents principal payment on long-term debt of \$1,435,000, and capital budget of \$550,000.

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, 2020

Personnel Expenses (including benefits)	\$ 583,318
Professional Fees:	
Auditing	10,050
Legal	9,224
Engineering	36,227
Financial Advisor	-
Other Consulting Services	165,286
Purchased Services For Resale:	
Bulk Water and Wastewater Service Purchases	-
Contracted Services:	
Bookkeeping	-
General Manager	-
Appraisal District	-
Tax Collector	-
Other Contracted Expenses	95,560
Utilities	1,096,419
Repairs and Maintenance	306,957
Administrative Expenses:	
Directors Fees	-
Office Supplies	1,357
Insurance	77,764
Other Administrative Expenses	26,409
Depreciation Expense	1,287,437
Capital Outlay:	
Capitalized Assets	-
Expenses not Capitalized	-
Tap Connection Expenses	-
Solid Waste Disposal	-
Amortized Regulatory Asset	(7,437)
Interest Expense	835,410
Other Expenses	956,796
TOTAL EXPENSES	<u><u>\$ 5,480,777</u></u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-3. Temporary Investments
For the Year Ended September 30, 2020

Funds	ID or Certification Number	Interest Rate	Maturity Date	Balance at Year End	Accrued Interest Rec at Year End
U.S. Treasury Note	912828N89	1.46%	01/30/21	\$ 656,681	\$ 1,823
TexPool		0.18%	N/A	803,994	-
US Bank		0.06%	N/A	49,333	-
US Bank		0.06%	N/A	113,662	-
US Bank		0.06%	N/A	27,815	-
US Bank		0.06%	N/A	5,591	-
Texas Daily		0.17%	N/A	4,826,712	-
Texas TERM CD Program		1.69%	11/06/20	980,000	16,182
Texas TERM CD Program		1.83%	03/26/21	244,000	2,952
Texas TERM CD Program		0.58%	05/05/21	744,000	2,212
Texas TERM CD Program		0.30%	06/25/21	496,000	592
Total				<u>\$ 8,947,788</u>	<u>\$ 23,761</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009A) – by Years
For the Year Ended September 30, 2020

DUE DURING FISCAL YEARS ENDING	Series 2009A		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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>\$ 5,885,000</u>	<u>\$ -</u>	<u>\$ 5,885,000</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009B) – by Years - Continued
For the Year Ended September 30, 2020

DUE DURING FISCAL YEARS ENDING	Series 2009B		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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>\$ 2,080,000</u>	<u>\$ 446,133</u>	<u>\$ 2,526,133</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2012) – by Years - Continued
For the Year Ended September 30, 2020

DUE DURING FISCAL YEARS ENDING	Series 2012		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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>\$ 7,960,000</u>	<u>\$ 1,514,900</u>	<u>\$ 9,474,900</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2017) – by Years - Continued
For the Year Ended September 30, 2020

DUE DURING FISCAL YEARS ENDING	Series 2017		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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>\$ 8,320,000</u>	<u>\$ 3,353,400</u>	<u>\$ 11,673,400</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(All Debt Series) – by Years
For the Year Ended September 30, 2020

DUE DURING FISCAL YEARS ENDING	Annual Requirements for All Series		
	Principal Due 09/01	Interest Due 03/01, 09/01	Total
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
	<u>\$ 24,245,000</u>	<u>\$ 5,314,433</u>	<u>\$ 29,559,433</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-6. Changes in Long-Term Debt
For the Year Ended September 30, 2020

	<u>Revenue Bond Issues</u>			
	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2012</u>	<u>Series 2017</u>
Interest Rate	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
Maturity Dates	9/1/2039	9/1/2029	9/1/2027	9/1/2032
Beginning Bonds Outstanding	\$ 6,195,000	\$ 2,270,000	\$ 8,895,000	\$ 8,320,000
Bonds Sold During the Fiscal Year	-	-	-	-
Bonds Retired During the Fiscal Year	<u>(310,000)</u>	<u>(190,000)</u>	<u>(935,000)</u>	<u>-</u>
Ending Bonds Outstanding	<u>\$ 5,885,000</u>	<u>\$ 2,080,000</u>	<u>\$ 7,960,000</u>	<u>\$ 8,320,000</u>
Interest Paid During the Fiscal Year	\$ -	\$ 92,305	\$ 419,650	\$ 360,850
Paying Agent's Name and City	<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>Revenue Bonds</u>	<u>Refunding Bonds</u>		
Amount Authorized by Participants	<u>\$ 44,065,000</u>	<u>\$ 23,480,000</u>		
Amount Issued	<u>\$ 44,065,000</u>	<u>\$ 23,480,000</u>		
Remaining To Be Issued	<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, 2020: \$ 1,580,109

Average annual debt service payment (Principal and Interest) for remaining term of all debt: \$ 1,555,760

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

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	Amounts					Percent of Total Revenues				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Operating Revenues:										
Member Assessments	\$ 6,899,420	\$ 6,907,522	\$ 6,936,183	\$ 6,651,437	\$ 6,622,653	100.0%	100%	100.0%	100.0%	100.0%
Sewer service	-	-	-	-	-	-	-	-	-	-
Application fees	-	-	-	-	-	-	-	-	-	-
Penalty and interest	-	-	-	-	-	-	-	-	-	-
Tap connection fees	-	-	-	-	-	-	-	-	-	-
Interest on time deposit	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	6,899,420	6,907,522	6,936,183	6,651,437	6,622,653	100.0%	100%	100.0%	100.0%	100.0%
Operating Expenses:										
Personnel	583,318	612,196	603,668	583,848	578,682	8.5%	8.9%	8.7%	8.8%	8.8%
Professional fees	220,787	223,304	178,951	176,015	140,480	3.2%	3.2%	2.6%	2.6%	2.6%
Contracted services	95,560	74,407	59,456	75,018	5,667	1.4%	1.1%	0.9%	1.1%	1.1%
Repairs and Maintenance	306,957	59,803	118,267	122,195	136,750	4.4%	0.9%	1.7%	1.8%	1.8%
Utilities	1,096,419	1,095,005	1,076,252	1,029,868	1,059,645	15.9%	15.9%	15.5%	15.5%	15.5%
Material and supplies	854,652	1,215,305	1,371,376	1,213,197	1,348,863	12.4%	17.6%	19.8%	18.2%	18.2%
Other Expenses	195,846	160,405	165,019	150,893	219,433	2.8%	2.3%	2.4%	2.3%	2.3%
Depreciation	1,287,437	1,276,262	1,250,362	1,244,517	931,124	18.7%	18.5%	18.0%	18.7%	18.7%
Total Operating Expenses	4,640,976	4,716,687	4,823,351	4,595,551	4,420,644	67.3%	68.3%	69.5%	69.1%	69.1%
Operating Income	2,258,444	2,190,835	2,112,832	2,055,886	2,202,009	32.7%	31.7%	30.5%	30.9%	30.9%
Non-Operating Revenues (Expenses)										
Interest revenue	114,089	229,638	134,535	63,937	38,350	1.7%	-3.3%	-1.0%	-1.0%	-0.4%
Bond discount amortization	-	-	-	-	-	0.0%	0.0%	-	-	-
Amortized regulatory asset and others	7,437	7,437	7,437	(3,826)	(15,889)	0.1%	-0.1%	0.1%	0.1%	0.3%
Interest Expense	(835,410)	(870,055)	(916,580)	(971,597)	(1,013,103)	-12.1%	12.6%	14.6%	14.6%	15.6%
Other Non Operating Revenue (Expenses)	(11,828)	(7,356)	(8,514)	(7,637)	(53,653)	-0.2%	0.1%	0.1%	0.1%	0.1%
Total Non-Operating Revenues (Expenses)	(725,712)	(640,336)	(783,122)	(919,123)	(1,044,295)	-10.5%	9.3%	13.8%	13.8%	15.6%
Income before Capital Contributions	1,532,732	1,550,499	1,329,710	1,136,763	1,157,714	22.2%	41.0%	44.3%	44.7%	46.5%
Capital Contributions	-	-	123,831	159,528	17,952	0.0%	0.0%	2.4%	2.4%	-
Net Income	<u>\$ 1,532,732</u>	<u>\$ 1,550,499</u>	<u>\$ 1,453,541</u>	<u>\$ 1,296,291</u>	<u>\$ 1,175,666</u>	<u>22.2%</u>	<u>41.0%</u>	<u>46.7%</u>	<u>47.1%</u>	<u>46.5%</u>

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-8. Board Members, Key Personnel, and Consultants
For the Year Ended September 30, 2020

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: September 14, 2020 (TWC Sections 36.054 and 49.054):				
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* 9/30/2020	Expense Reimbursements 9/30/2020	Title at 9/30/2020
*Board Members:				
Jude Benavides	August 2019	\$ -	\$ -	President
Roger Nelson	February 2010	-	-	Vice-President
Hipolito L. Narvaez	July 2012	-	-	Treasurer
Ralph Cowen	November 2008	-	-	Secretary
John S. Bruciak	January 2000	-	-	Deputy Secretary/Treasurer
James Chambers	January 2019	-	-	Member
Administrative Personnel:				
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 Special Projects, W/WW Engineering, Planning, & Operations
Judy Adams	June 2004	-	-	Area Manager
Consultants:				
Davidson Troilo Ream & Garza, P.C.	September 2000	\$ -	\$ 7,404	General Counsel
Orrick, Herrington & Stueliffe, LLP	March 2018	-	-	Bond Counsel
Estrada Hinojosa & Company	September 2006	-	-	Financial Advisor
Baker Tilly Virchow Krause, LLP	July 2019	-	10,050	External Auditors

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

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

Independent Auditors' Report

To the Board of Directors
Southmost Regional Water Authority
Brownsville, Texas

We have audited, 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, the financial statements of Southmost Regional Water Authority as of and for the year ended September 30, 2020, and have issued our report thereon dated February 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southmost Regional Water 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southmost Regional Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Southmost Regional Water 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 controls 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 financial statements of Southmost Regional Water Authority are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Austin, Texas
February 1, 2021



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