



Annual Financial Report

For the Fiscal Years Ended September 30, 2022 & 2021





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, 2022 and 2021

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 6th day of March, 2023, its annual audit report for the fiscal period ended September 30, 2022 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)

Miguel Angel Perez, 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

~ Southmost Regional Water Authority Board Members ~



Jude Benavidez
President



Roger Nelson
Vice-President



Gabriela Fernandez
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



Marilyn D. Gilbert
Assistant GM & COO



Miguel Angel Perez
Chief Financial Officer

~ Consultants and Advisors ~

Orrick, Herrington & Sutcliffe, LLP..... Houston, Texas
Burton McCumber & Longoria, LLP Brownsville, Texas
Davidson Troilo Ream & Garza, PC San Antonio, Texas
Estrada Hinojosa & Company, Inc. Dallas, Texas

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the Southmost Regional Water Authority, a component unit of the Public Utilities Board of the City of Brownsville, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the the Southmost Regional Water Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southmost Regional Water Authority, as of September 30, 2022, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Southmost Regional Water Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Prior Period Financial Statements

The financial statements of Southmost Regional Water Authority as of and for the year ended September 30, 2021 were audited by other auditors and in their report dated January 20, 2022 they expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southmost Regional Water Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southmost Regional Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southmost Regional Water Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the Texas Supplementary Information as identified in the table of contents but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2023, 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 Southmost Regional Water Authority's internal control over financial reporting and compliance.

Burton, McCumber & Longoria LLP

Brownsville, Texas
February 3, 2023

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, 2022 and 2021. 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 \$851,934 or 6.1 percent.
- During the year, the Authority's operating revenues increased \$780,636 or 13.1 percent, and operating expenses increased by \$920,718 or 30.7 percent.
- Capital assets (net) of the Authority decreased by \$771,311 or 2.3 percent under last year.
- Long-term liabilities of the Authority decreased by \$1,816,240 or 8.1 percent from prior 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 through an independent external audit process.

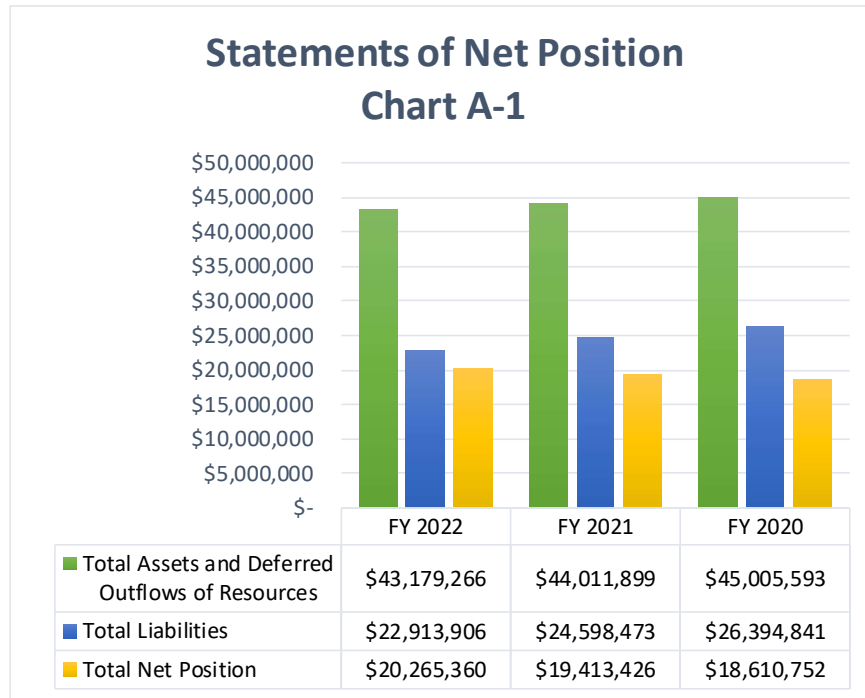
FINANCIAL ANALYSIS

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

| Statements of Net Position | | | | | | | |
|--|---------------|---------------|---------------|-------------------------|--------|-------------------------|--------|
| September 30, 2022, 2021 and 2020 | | | | | | | |
| TABLE A-1 | | | | | | | |
| | FY 2022 | FY 2021 | FY 2020 | Change 2022 vs. 2021 | | Change 2021 vs. 2020 | |
| Current and Other Assets | \$ 9,393,869 | \$ 9,371,272 | \$ 9,935,441 | \$ 22,597 | 0.2% | \$ (564,169) | -5.7% |
| Capital Assets | 33,209,660 | 33,980,971 | 34,322,035 | (771,311) | -2.3% | (341,064) | -1.0% |
| Total Assets | 42,603,529 | 43,352,243 | 44,257,476 | \$ (748,714) | -1.7% | \$ (905,233) | -2.0% |
| Deferred Outflows of Resources | 575,737 | 659,656 | 748,117 | (83,919) | -12.7% | (88,461) | -11.8% |
| Total Assets Plus Deferred Outflows of Resources | \$ 43,179,266 | \$ 44,011,899 | \$ 45,005,593 | \$ (832,633) | -1.9% | (993,694) | -2.2% |
| Current Liabilities | \$ 2,178,696 | \$ 2,047,023 | \$ 2,167,722 | \$ 131,673 | 6.4% | \$ (120,699) | -5.6% |
| Long Term Liabilities | 20,735,210 | 22,551,450 | 24,227,119 | (1,816,240) | -8.1% | (1,675,669) | -6.9% |
| Total Liabilities | \$ 22,913,906 | \$ 24,598,473 | \$ 26,394,841 | \$ (1,684,567) | -6.8% | \$ (1,796,368) | -6.8% |
| Net Investment in Capital Assets | \$ 11,445,187 | \$ 10,544,177 | \$ 9,358,032 | \$ 901,010 | 8.5% | \$ 1,186,145 | 12.7% |
| Restricted | 3,291,969 | 3,685,656 | 5,160,917 | (393,687) | -10.7% | (1,475,261) | -28.7% |
| Unrestricted | 5,528,204 | 5,183,593 | 4,091,803 | 344,611 | 6.6% | 1,091,790 | 26.8% |
| Total Net Position | \$ 20,265,360 | \$ 19,413,426 | \$ 18,610,752 | \$ 851,934 | 4.4% | \$ 802,674 | 4.3% |



A review of the Statement of Net Position indicates a decrease of total assets and deferred outflows of resources of \$832,633 for FY 2022 as compared to FY 2021, and a decrease in total liabilities of \$1,684,567 for the same period. Additionally, total net position increased \$851,934 for FY 2022 as compared to FY 2021. The net capital assets decrease can be attributed to annual depreciation of assets. Deferred outflows of resources decreased overall \$83,919 in FY 2022 as a result of amortization of capitalized debt reacquisition costs. The majority of the decrease in liabilities are in long-term liabilities. This is attributable to bond principal and interest payments.

A review of the Statement of Net Position indicates a decrease of total assets and deferred outflows of resources of \$993,694 for FY 2021 as compared to FY 2020, and a decrease in total liabilities of \$1,796,368 for the same period. Additionally, total net position increased \$802,674 for FY 2021 as compared to FY 2020. Deposits and investment account balance decreases accounted for a large portion of the current and other assets decrease from FY2020. Net capital assets decrease can be attributed to annual depreciation of assets and some additions of construction work in progress. Deferred outflows of resources decreased overall \$88,461 in FY 2021 as a result of amortization of capitalized debt reacquisition costs. The majority of the decrease in liabilities are in long-term liabilities. This is attributable to bond principal and interest payments.

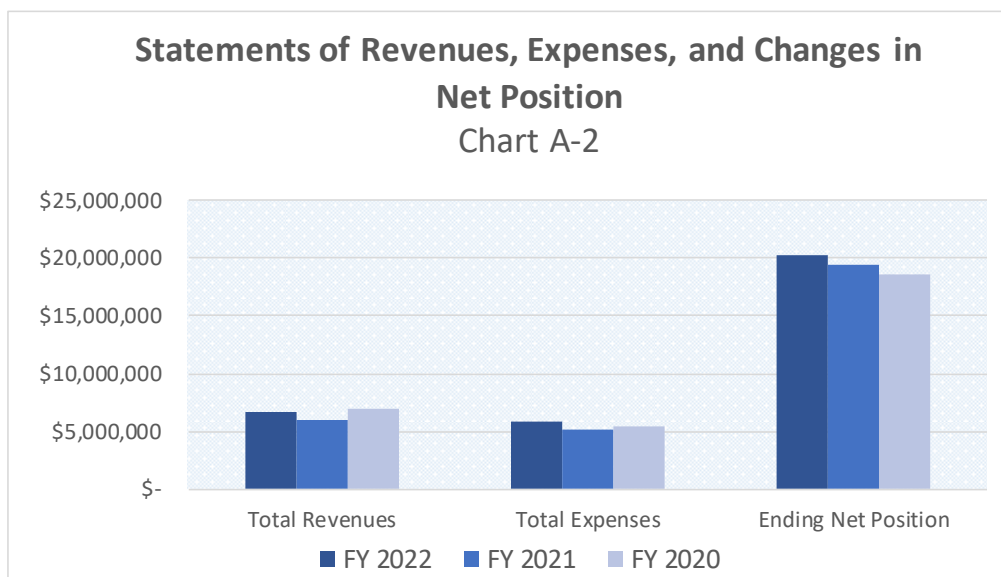
A summary of the Authority's Condensed Statements of Revenues, Expenses, and Changes in Net Position are presented in Table A-2 and graphically in Chart A-2, respectively, on the following page.

Statements of Revenues, Expenses, and Changes in Net Position

For Fiscal Years Ended September 30, 2022, 2021 and 2020

TABLE A-2

| | FY 2022 | FY 2021 | FY 2020 | Change 2022 vs. 2021 | | Change 2021 vs. 2020 | |
|---------------------------|---------------|---------------|---------------|-------------------------|--------|-------------------------|--------|
| Operating Revenues | \$ 6,722,915 | \$ 5,942,279 | \$ 6,899,420 | \$ 780,636 | 13.1% | \$ (957,141) | -13.9% |
| Total Revenues | \$ 6,722,915 | \$ 5,942,279 | \$ 6,899,420 | \$ 780,636 | 13.1% | \$ (957,141) | -13.9% |
| Depreciation Expense | \$ 1,299,550 | \$ 1,283,498 | \$ 1,287,437 | \$ 16,052 | 1.3% | \$ (3,939) | -0.3% |
| Other Operating Expense | 3,996,129 | 3,091,463 | 3,353,539 | 904,666 | 29.3% | (262,076) | -7.8% |
| Net Non-Operating Expense | 575,302 | 764,644 | 725,712 | (189,342) | -24.8% | 38,932 | 5.4% |
| Total Expenses | \$ 5,870,981 | \$ 5,139,605 | \$ 5,366,688 | \$ 731,376 | 14.2% | \$ (227,083) | -4.2% |
| Change in Net Position | \$ 851,934 | \$ 802,674 | \$ 1,532,732 | \$ 49,260 | 6.1% | \$ (730,058) | -47.7% |
| Beginning Net Position | 19,413,426 | 18,610,752 | 17,078,020 | 802,674 | 4.3% | 1,532,732 | 9.0% |
| Ending Net Position | \$ 20,265,360 | \$ 19,413,426 | \$ 18,610,752 | \$ 851,934 | 4.4% | \$ 802,674 | 4.3% |



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. Operating revenues in FY 2022 increased by \$780,636 and total operating and net non-operating expenses increased by \$731,376 compared to FY 2021. The Authority incurred an increase in operating expenses from FY 2021 in repairs and maintenance and contractual and other services accounts. Fiscal year 2022 experienced increases in operating expenses compared to prior year in utility services and membrane replacements.

Operating revenues in FY 2021 decreased by \$957,141 and total operating and net non-operating expenses decreased by \$227,083 compared to FY 2020. The Authority incurred a decrease in operating expenses of approximately \$266,015 from FY 2020, due primarily to decreases in repairs and maintenance and contractual and other services accounts. While the interest expense decreased in FY2021, investment interest income also decreased significantly from FY2020.

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 2022 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 2022 Budget | FY 2022 Actual | Variance |
|--------------------------------|-------------------|-------------------|--------------|
| Revenues From Operations: | | | |
| Operating Revenues | \$ 4,306,040 | \$ 4,306,040 | \$ - |
| Total Revenues | \$ 4,306,040 | \$ 4,306,040 | \$ - |
| Operating Expenses: | | | |
| Personnel Services | \$ 760,373 | \$ 726,033 | \$ 34,340 |
| Materials and Supplies | 1,320,353 | 1,457,643 | (137,290) |
| Repairs and Maintenance | 332,514 | 139,751 | 192,763 |
| Contractual and other services | 1,892,800 | 1,670,061 | 222,739 |
| Total Expenses | \$ 4,306,040 | \$ 3,993,488 | \$ 312,552 |
| Operating Income | \$ - | \$ 312,552 | \$ (312,552) |

The Operations and Maintenance Budget to Actual Comparison Schedule indicates that the Authority only exceeded budgeted expenses in the materials and supplies category for fiscal year 2022. The variance for materials and supplies represents mainly the cost of membrane replacements. The Authority experienced a reduction to the number of repairs and maintenance required by the wells. 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 2022 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 2022, the Authority's net investment in the Desalination Plant totaled \$33.2 million as shown in Table A-4, and graphically in Chart A-4 on the following page.

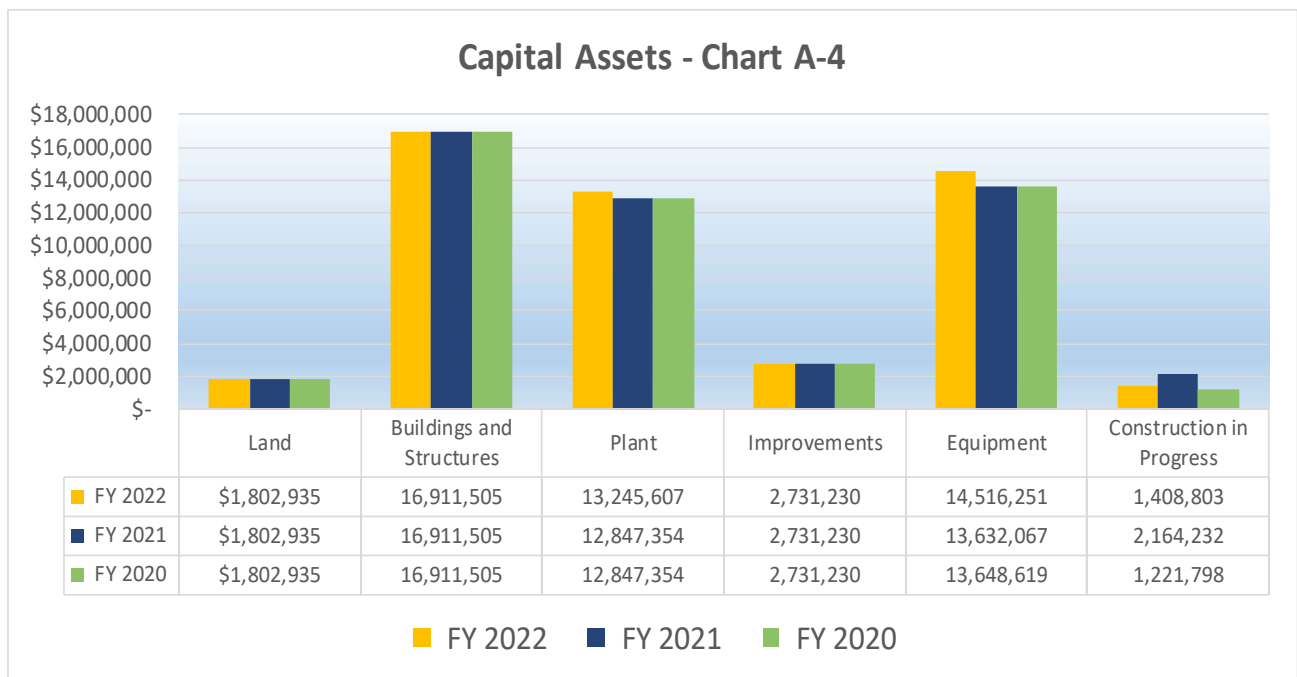
Capital Assets

September 30, 2022, 2021 and 2020

TABLE A-4

| | FY 2022 | FY 2021 | FY 2020 | Change 2022 vs. 2021 | | Change 2021 vs. 2020 | |
|--------------------------------|---------------|---------------|---------------|-------------------------|--------|-------------------------|-------|
| Land | \$ 1,802,935 | \$ 1,802,935 | \$ 1,802,935 | \$ - | 0.0% | \$ - | 0.0% |
| Buildings and Structures | 16,911,505 | 16,911,505 | 16,911,505 | - | 0.0% | - | 0.0% |
| Plant | 13,245,607 | 12,847,354 | 12,847,354 | 398,253 | 3.1% | - | 0.0% |
| Improvements | 2,731,230 | 2,731,230 | 2,731,230 | - | 0.0% | - | 0.0% |
| Equipment | 14,516,251 | 13,632,067 | 13,648,619 | 884,184 | 6.5% | (16,552) | -0.1% |
| Construction in Progress | 1,408,803 | 2,164,232 | 1,221,798 | (755,429) | -34.9% | 942,434 | 77.1% |
| Subtotal | 50,616,331 | 50,089,323 | 49,163,441 | 527,008 | 1.1% | 925,882 | 1.9% |
| Less: Accumulated Depreciation | (17,406,671) | (16,108,352) | (14,841,406) | (1,298,319) | 8.1% | (1,266,946) | 8.5% |
| Capital Assets, Net | \$ 33,209,660 | \$ 33,980,971 | \$ 34,322,035 | \$ (771,311) | -2.3% | \$ (341,064) | -1.0% |

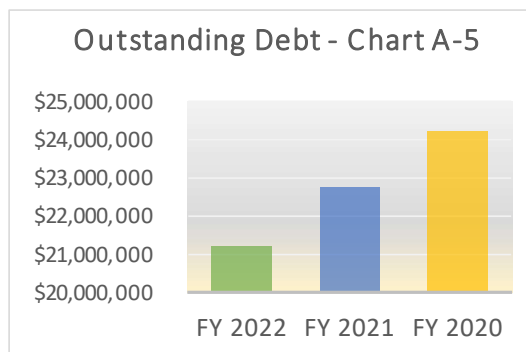
Net capital assets decreased \$771,311, or 2.3%, in FY 2022 as compared to FY2021. In FY 2021, net capital assets also decreased by \$341,064, or 1.0 %, as compared to FY 2020. The net decrease can be mainly attributed to an increase in accumulated depreciation each year. Although there have been additions to the Plant and Equipment this year, the additions are less than annual depreciation, causing the net decrease. Depreciation expense for FY 2022 and FY 2021 was \$1,299,550 and \$1,283,498, 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 \$21.2 million. The bonds are secured solely by specified revenue sources.

Outstanding Debt
September 30, 2022, 2021 and 2020
TABLE A-5

| | Revenue Bonds |
|---------|---------------|
| FY 2022 | \$ 21,215,000 |
| FY 2021 | \$ 22,760,000 |
| FY 2020 | \$ 24,245,000 |



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's Water Supply Contract Revenue Refunding Bonds, Series 2017 was rated A2 by Moody's for Uninsured and AA by S&P for Insured. The Authority's underlying ratings on its Water Supply Contract Revenue Refunding Bonds, Series 2012 are "A2" by Moody's and "A+" by Fitch, respectively.

Note 7 provides an explanation of the Authority's outstanding long-term debt as of September 30, 2022.

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, 2022 and 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| ASSETS | | |
| Current Assets: | | |
| Cash - unrestricted | \$ 309,413 | \$ 1,392,266 |
| Investments - unrestricted | 5,338,301 | 3,816,650 |
| Investments - restricted | 210,804 | 192,164 |
| Due from governments and other sources | 23,544 | 16,184 |
| Interest receivable | 11,492 | 912 |
| Prepaid expense | 67,016 | 59,475 |
| Total Current Assets | 5,960,570 | 5,477,651 |
| Non-Current Assets: | | |
| Cash - restricted | 43,546 | 426,865 |
| Investments - restricted | 3,093,699 | 3,127,588 |
| Capital assets, net of accumulated depreciation | 33,209,660 | 33,980,971 |
| Unamortized regulatory assets | 296,054 | 339,168 |
| Total Non-Current Assets | 36,642,959 | 37,874,592 |
| Total Assets | 42,603,529 | 43,352,243 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | 575,737 | 659,656 |
| Total Deferred Outflows of Resources | 575,737 | 659,656 |
| Total Assets plus Deferred Outflows of Resources | \$ 43,179,266 | \$ 44,011,899 |
| LIABILITIES AND NET POSITION | | |
| Current Liabilities: | | |
| Payable from unrestricted assets: | | |
| Accounts payable | \$ 327,786 | \$ 251,351 |
| Unearned revenues | 189,830 | 189,711 |
| Total Current Unrestricted Liabilities | 517,616 | 441,062 |
| Payable from restricted assets: | | |
| Accrued interest | 56,080 | 60,961 |
| Bonds payable - current redemption | 1,605,000 | 1,545,000 |
| Total Current Restricted Liabilities | 1,661,080 | 1,605,961 |
| Total Current Liabilities | 2,178,696 | 2,047,023 |
| Non-Current Liabilities: | | |
| Bonds payable | 19,610,000 | 21,215,000 |
| Reoffering premium | 1,346,123 | 1,580,550 |
| Bond issue discount | (220,913) | (244,100) |
| Total Non-Current Liabilities | 20,735,210 | 22,551,450 |
| Total Liabilities | 22,913,906 | 24,598,473 |
| Net Position: | | |
| Net investment in capital assets | 11,445,187 | 10,544,177 |
| Restricted for debt service | 822,642 | 795,403 |
| Restricted for capital projects | 2,469,327 | 2,890,253 |
| Unrestricted | 5,528,204 | 5,183,593 |
| Total Net Position | 20,265,360 | 19,413,426 |
| Total Liabilities and Net Position | \$ 43,179,266 | \$ 44,011,899 |

See Notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For Years Ended September 30, 2022 and 2021

| | 2022 | 2021 |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Member assessments | \$ 6,722,915 | \$ 5,942,279 |
| Total Operating Revenues | <u>6,722,915</u> | <u>5,942,279</u> |
| Operating Expenses: | | |
| Personnel services | 726,033 | 586,687 |
| Materials and supplies | 1,457,643 | 949,082 |
| Repairs and maintenance | 139,751 | 114,815 |
| Contractual and other services | 1,672,702 | 1,440,879 |
| Depreciation expense | 1,299,550 | 1,283,498 |
| Total Operating Expenses | <u>5,295,679</u> | <u>4,374,961</u> |
| Operating Income | 1,427,236 | 1,567,318 |
| Non-Operating Revenues (Expenses): | | |
| Non-operating revenues (expenses) | (6,320) | (6,243) |
| Interest from investments | 74,497 | 16,604 |
| Amortization of regulatory asset, loss on refunding, and premium and discount | 84,207 | 7,437 |
| Interest expense | (726,656) | (782,442) |
| Gain/(Loss) on disposition of assets | (1,030) | - |
| Net Non-Operating Revenues (Expenses) | <u>(575,302)</u> | <u>(764,644)</u> |
| Change in Net Position | 851,934 | 802,674 |
| Net position at beginning of year | 19,413,426 | 18,610,752 |
| Net position at end of year | <u>\$ 20,265,360</u> | <u>\$ 19,413,426</u> |

See Notes to Financial Statements

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOW
For Years Ended September 30, 2022 and 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from members | \$ 6,715,675 | \$ 5,947,940 |
| Cash paid for services | (3,934,587) | (3,290,114) |
| Net cash provided by Operating Activities | <u>2,781,088</u> | <u>2,657,826</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Principal paid on capital debt | (1,545,000) | (1,485,000) |
| Interest paid on capital debt | (731,537) | (787,070) |
| Acquisition and construction of capital assets | (528,238) | (942,434) |
| Net cash (used) in Capital and Related Financing Activities | <u>(2,804,775)</u> | <u>(3,214,504)</u> |
| Cash Flows from Investing Activities: | | |
| Interest received | 63,917 | 39,454 |
| Purchase of investments | (26,580,764) | (11,431,497) |
| Sales of investments | 24,696,322 | 13,056,179 |
| Net cash (used)/provided by Investing Activities | <u>(1,820,525)</u> | <u>1,664,136</u> |
| Net (decrease)/increase in cash | (1,844,212) | 1,107,458 |
| Cash and cash equivalents at beginning of year | 7,459,535 | 6,352,077 |
| Cash and cash equivalents at end of year | <u>\$ 5,615,323</u> | <u>\$ 7,459,535</u> |
| Reconciliation of Cash and Cash Equivalents: | | |
| Cash | \$ 352,959 | \$ 1,819,131 |
| Short-term investments and money market funds | 5,262,364 | 5,640,404 |
| Total cash and cash equivalents | <u>\$ 5,615,323</u> | <u>\$ 7,459,535</u> |
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Operating income | \$ 1,427,236 | \$ 1,567,318 |
| Adjustments: | | |
| Depreciation expense | 1,299,550 | 1,283,498 |
| Non-operating revenues (expenses) | (6,320) | (6,243) |
| Gain/(Loss) on Disposal of Asset | (1,030) | - |
| Changes in assets and liabilities: | | |
| Decrease (increase) in due from govt and other sources | (7,360) | 5,289 |
| Decrease (increase) in prepaid expenses | (7,541) | (15,966) |
| Increase (decrease) in accounts payable | 76,434 | (176,442) |
| Increase (decrease) in unearned revenues | 119 | 372 |
| Net cash provided by Operating Activities | <u>\$ 2,781,088</u> | <u>\$ 2,657,826</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOW - Continued
For Years Ended September 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Non-cash investing, capital, and financing activities: | | |
| Changes in fair value | \$ 2,486 | \$ (3,224) |

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, 2022 and 2021

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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, 2022 and 2021

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, 2022 and 2021

Note 2 – Summary of Significant Accounting Policies – Continued

3. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Authority considers cash, money market accounts and short-term 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. Prepaid Expense

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.

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 | 30 to 50 years |
| Buildings and structures | 30 to 50 years |
| Improvements other than buildings | 50 years |
| Equipment | 15 to 35 years |
| Vehicles | 3 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, 2022 and 2021

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, 2022 and 2021, was \$296,054 and \$339,168, 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, 2022, and September 30, 2021, reacquisition costs totaled \$575,737 and \$659,656, 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, 2022 and 2021.

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, 2022 and 2021

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. 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.

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

During fiscal years 2022, the Authority implemented GASB Statement No. 87, *Leases*. The implementation of this GASB statement did not have a direct and material impact on the Authority's financial statements. All leases were deemed immaterial.

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, 2022 and 2021

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. On October 27, 2021, 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, TexasTERM/DAILY, 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. Texpool and TexasDAILY are rated AAAM and AAAMmf respectively and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2022, TexPool and TexasDAILY had a weighted average maturity of 25 days, and 21 days respectively. At September 30, 2021, TexPool and TexasDAILY had a weighted average maturity of 37 days, and 48 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 Program offers fixed-rate, fixed-term investment options. Investment maturities are for a minimum of sixty days and a maximum of one year. At year end, TexasTERM was rated AAAs by Fitch.

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

| | September 30, | |
|---|----------------------|---------------------|
| | 2022 | 2021 |
| Cash | \$ 352,959 | \$ 1,819,131 |
| Certificates of Deposits (Non-negotiable) | 737,000 | 496,000 |
| | <u>\$ 1,089,959</u> | <u>\$ 2,315,131</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.

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, 2022 and 2021**Note 3 – Deposits and Investments – Continued**

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

| September 30, 2022 | | | | |
|---|---------------------|---|-------------------|---------------|
| | Amount | Weighted Avg Maturity (days) | Allocation | Rating |
| U.S. Treasury Note | \$ 643,442 | | 8% | AA+ |
| Money Market Mutual Funds | 223,638 | 11 | 3% | AAAm |
| Institutional Insured Liquid Deposit (IILD) | 2,000,594 | | 25% | |
| Local Government Investment Pools | | | | |
| Tex Term | 2,000,000 | 44 | 25% | AAAf |
| Tex Pool | 1,345,856 | 25 | 17% | AAAm |
| Tex Daily | 1,692,274 | 21 | 21% | AAAmmf |
| Total | <u>\$ 7,905,804</u> | | <u>100%</u> | |

| September 30, 2021 | | | | |
|-----------------------------------|---------------------|---|-------------------|---------------|
| | Amount | Weighted Avg Maturity (days) | Allocation | Rating |
| Money Market Mutual Funds | \$ 855,636 | 38 | 13% | AAAm |
| Local Government Investment Pools | | | | |
| Tex Term | 1,000,000 | 32 | 15% | AAAf |
| Tex Pool | 728,960 | 37 | 11% | AAAm |
| Tex Daily | 4,055,806 | 48 | 61% | AAAmmf |
| Total | <u>\$ 6,640,402</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 60 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 AAA-m or an equivalent rating with a weighted average maturity no greater than 60 days and any other obligations shall be rated “A” or better. For FY 2022 and FY 2021 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, 2022 and 2021**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, 2022 and 2021. Investment balances presented exclude amounts related to money market mutual fund investments and external investment pools accounted for using amortized cost.

| September 30, 2022 | | | | |
|------------------------------|-------------------|----------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fair Value Investments | | | | |
| U.S. Treasuries | \$ 643,442 | \$ - | \$ - | \$ 643,442 |
| Total fair value investments | <u>\$ 643,442</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 643,442</u> |
| September 30, 2021 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Fair Value Investments | | | | |
| U.S. Treasuries | \$ - | \$ - | \$ - | \$ - |
| Total fair value investments | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</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, 2022 and 2021**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

| | <u>September 30,</u> | |
|---|----------------------|------------------|
| | <u>2022</u> | <u>2021</u> |
| Due from Members - Local Governments | | |
| City of Los Fresnos | \$ 4,328 | \$ 4,325 |
| Town of Indian Lake | 10,464 | 3,351 |
| Brownsville Navigation District | 3,987 | 3,984 |
| Valley Municipal Utility District No. 2 | 4,765 | 4,762 |
| Brownsville Public Utilities Board | - | (238) |
| | <u>\$ 23,544</u> | <u>\$ 16,184</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, 2022 and 2021

Note 6 – Capital Assets

Changes in the Authority's capital assets for the year ended September 30, 2022, were as follows:

| | Balance at 10/01/2021 | Additions | Deletions | Reclassifications | Balance at 09/30/2022 |
|---|--------------------------|--------------|------------|-------------------|--------------------------|
| <i>Capital assets, non-depreciable:</i> | | | | | |
| Land | \$ 1,802,935 | \$ - | \$ - | \$ - | \$ 1,802,935 |
| Construction in progress | 2,164,232 | 529,269 | - | (1,284,698) | 1,408,803 |
| Total capital assets, non-depreciable | 3,967,167 | 529,269 | - | (1,284,698) | 3,211,738 |
| <i>Capital assets, depreciable:</i> | | | | | |
| Plant | 12,847,354 | - | - | 398,253 | 13,245,607 |
| Buildings and structures | 16,911,505 | - | - | - | 16,911,505 |
| Improvements | 2,731,230 | - | - | - | 2,731,230 |
| Equipment | 13,632,067 | - | (2,261) | 886,445 | 14,516,251 |
| Total capital assets, depreciable | 46,122,156 | - | (2,261) | 1,284,698 | 47,404,593 |
| <i>Less accumulated depreciation:</i> | | | | | |
| Plant | (4,560,332) | (322,457) | - | - | (4,882,789) |
| Buildings and structures | (6,747,302) | (449,722) | - | - | (7,197,024) |
| Improvements | (282,229) | (54,625) | - | - | (336,854) |
| Equipment | (4,518,489) | (472,746) | 1,231 | - | (4,990,004) |
| Total accumulated depreciation | (16,108,352) | (1,299,550) | 1,231 | - | (17,406,671) |
| Capital assets, net | \$ 33,980,971 | \$ (770,281) | \$ (1,030) | \$ - | \$ 33,209,660 |

Changes in the Authority's capital assets for the year ended September 30, 2021, were as follows:

Changes in the Authority's capital assets for the year ended September 30, 2021, were as follows:

| | Balance at 10/01/2020 | Additions | Deletions | Reclassifications | Balance at 09/30/2021 |
|---|--------------------------|--------------|-----------|-------------------|--------------------------|
| <i>Capital assets, non-depreciable:</i> | | | | | |
| Land | \$ 1,802,935 | \$ - | \$ - | \$ - | \$ 1,802,935 |
| Construction in progress | 1,221,798 | 942,434 | - | - | 2,164,232 |
| Total capital assets, non-depreciable | 3,024,733 | 942,434 | - | - | 3,967,167 |
| <i>Capital assets, depreciable:</i> | | | | | |
| Plant | 12,847,354 | - | - | - | 12,847,354 |
| Buildings and structures | 16,911,505 | - | - | - | 16,911,505 |
| Improvements | 2,731,230 | - | - | - | 2,731,230 |
| Equipment | 13,648,619 | - | (16,552) | - | 13,632,067 |
| Total capital assets, depreciable | 46,138,708 | - | (16,552) | - | 46,122,156 |
| <i>Less accumulated depreciation:</i> | | | | | |
| Plant | (4,238,569) | (321,763) | - | - | (4,560,332) |
| Buildings and structures | (6,297,580) | (449,722) | - | - | (6,747,302) |
| Improvements | (227,604) | (54,625) | - | - | (282,229) |
| Equipment | (4,077,653) | (457,388) | 16,552 | - | (4,518,489) |
| Total accumulated depreciation | (14,841,406) | (1,283,498) | 16,552 | - | (16,108,352) |
| Capital assets, net | \$ 34,322,035 | \$ (341,064) | \$ - | \$ - | \$ 33,980,971 |

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, 2022 and 2021**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, 2022, and 2021, are as follows:

| Series | Series Description | Original Borrowing | Installment Amounts | | Interest Rates to Maturity | Final Maturity | Outstanding at 9/30/22 | Outstanding at 9/30/21 |
|--------|--|-----------------------|---------------------|----------------|-------------------------------|-------------------|---------------------------|---------------------------|
| 2009 | Revenue Bonds (Series A)* | \$ 9,295,000 | \$ 305,000 | - \$ 310,000 | 0.0% | 2039 | \$ 5,265,000 | \$ 5,575,000 |
| 2009 | Revenue Bonds (Series B)* | \$ 3,795,000 | \$ 190,000 | - \$ 270,000 | 0.1% - 4.25% | 2029 | 1,680,000 | 1,885,000 |
| 2012 | Water Supply Contract Revenue Refunding Bonds | \$ 13,530,000 | \$ 935,000 | - \$ 1,285,000 | 3.0% - 5.0% | 2027 | 5,950,000 | 6,980,000 |
| 2017 | Water Supply Contract Revenue Refunding Bonds | \$ 9,255,000 | \$ 1,540,000 | - \$ 1,795,000 | 4.125% - 5.5% | 2032 | 8,320,000 | 8,320,000 |
| | | | | | | | <u>\$ 21,215,000</u> | <u>\$ 22,760,000</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, 2022 and 2021

Note 7 – Long-Term Debt – Continued

Revenue bond balances and activity for the year ended September 30, 2021, and 2020, are as follows:

| | Beg. Balance 10/1/2021 | Additions | Reductions/ Amortization | End Balance 9/30/2022 | Due Within One Year |
|--------------------------|---------------------------|-------------|-----------------------------|--------------------------|------------------------|
| Revenue Bonds | \$ 15,300,000 | \$ - | \$ (1,030,000) | \$ 14,270,000 | \$ 1,085,000 |
| Direct Placement Bonds | 7,460,000 | - | (515,000) | 6,945,000 | 520,000 |
| Unamortized Premium | 1,580,550 | - | (234,427) | 1,346,123 | - |
| Unamortized Discount | (244,100) | - | 23,187 | (220,913) | - |
| Total Bonds Payable, Net | <u>\$ 24,096,450</u> | <u>\$ -</u> | <u>\$ (1,756,240)</u> | <u>\$ 22,340,210</u> | <u>\$ 1,605,000</u> |

| | Beg. Balance 10/1/2020 | Additions | Reductions/ Amortization | End Balance 9/30/2021 | Due Within One Year |
|--------------------------|---------------------------|-------------|-----------------------------|--------------------------|------------------------|
| Revenue Bonds | \$ 16,280,000 | \$ - | \$ (980,000) | \$ 15,300,000 | \$ 1,030,000 |
| Direct Placement Bonds | 7,965,000 | - | (505,000) | 7,460,000 | 515,000 |
| Unamortized Premium | 1,731,966 | - | (151,416) | 1,580,550 | - |
| Unamortized Discount | (264,847) | - | 20,747 | (244,100) | - |
| Total Bonds Payable, Net | <u>\$ 25,712,119</u> | <u>\$ -</u> | <u>\$ (1,615,669)</u> | <u>\$ 24,096,450</u> | <u>\$ 1,545,000</u> |

Principal and interest amount 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,: | | | | | | |
| 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 | 1,255,000 | 434,700 | 1,689,700 | 550,000 | 42,865 | 592,865 |
| 2027 | 1,285,000 | 397,050 | 1,682,050 | 560,000 | 33,025 | 593,025 |
| 2028-2032 | 8,320,000 | 1,023,800 | 9,343,800 | 2,080,000 | 34,000 | 2,114,000 |
| 2033-2037 | - | - | - | 1,550,000 | - | 1,550,000 |
| 2038-2039 | - | - | - | 615,000 | - | 615,000 |
| | <u>\$ 14,270,000</u> | <u>\$ 3,505,900</u> | <u>\$ 17,775,900</u> | <u>\$ 6,945,000</u> | <u>\$ 289,925</u> | <u>\$ 7,234,925</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, 2022 and 2021

Note 7 – Long-Term Debt – Continued

Direct Placement Bonds

As of September 30, 2022, 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 \$5,265,000 and \$1,680,000, 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, 2021, 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 \$5,575,000 and \$1,885,000, 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, 2022 and 2021, unearned revenue totaled \$189,830 and \$189,711, 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 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. These leases were deemed immaterial and were not capitalized under GASB 87 – *Leases* implementation.

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 2021 was \$43,486,567, and increased to \$44,060,590 for FY 2022. The premium for FY 2022 was \$131,954 and \$116,871 for FY 2021.

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, 2022 and 2021

Note 11 – Commitments and Contingencies

The Authority had \$140,471 and \$543,121 unexpended in construction commitments at September 30, 2022 and 2021, 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, 2022, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements are as follows:

- 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. 99, *Omnibus 2022*
- GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62
- GASB Statement No. 101, *Compensated Absences*

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, 2022**

| | Original and Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|--|---|-------------------|----------------------------------|
| Income: | | | |
| Member Contributions: | | | |
| Brownsville PUB | \$ 6,246,259 | \$ 6,246,259 | \$ - |
| Valley Municipal Utility District #2 | 168,745 | 168,745 | - |
| City of Los Fresnos | 153,283 | 153,283 | - |
| Brownsville Navigation District | 141,181 | 141,181 | - |
| Town of Indian Lake | 13,447 | 13,447 | - |
| Total Member Contributions | 6,722,915 | 6,722,915 | - |
| Interest Income | - | 74,497 | 74,497 |
| Total Income | 6,722,915 | 6,797,412 | 74,497 |
| Expense: | | | |
| Operating Expenses: | | | |
| Personnel services | 760,373 | 726,033 | 34,340 |
| Materials and supplies | 1,320,353 | 1,457,643 | (137,290) |
| Repairs and maintenance | 332,514 | 139,751 | 192,763 |
| Contractual and other services | 1,892,800 | 1,672,702 | 220,098 |
| Non-Operating Expenses: | | | |
| Interest Expense | 731,537 | 726,656 | 4,881 |
| Non-Operating Expense | - | 6,320 | (6,320) |
| Total Expenses | 5,037,577 | 4,729,105 | 308,472 |
| Net Income (Loss) | \$ 1,685,338 ¹ | 2,068,307 | \$ (382,969) |
| Depreciation Expense Not Budgeted | | (1,299,550) | |
| Amortized Regulatory Asset Not Budgeted | | 7,437 | |
| Amortized Regulatory Asset - Year End Adjustment | | 76,770 | |
| Capital Contributions (Not Budgeted) | | - | |
| Gain (Loss) on Disposition of Property | | (1,030) | |
| Change in Net Position | | \$ 851,934 | |

¹ Represents principal payment on long-term debt of \$1,545,000, and capital budget of \$140,338.

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, 2022

| | |
|--|---------------------|
| Personnel Expenses (including benefits) | \$ 726,033 |
| Professional Fees: | |
| Auditing | 10,350 |
| Legal | 11,797 |
| Engineering | 17,530 |
| Financial Advisor | - |
| Other Consulting Services | 184,522 |
| Purchased Services For Resale: | |
| Bulk Water and Wastewater Service Purchases | - |
| Contracted Services: | |
| Bookkeeping | - |
| General Manager | - |
| Appraisal District | - |
| Tax Collector | - |
| Other Contracted Expenses | 109,250 |
| Utilities | 1,091,666 |
| Repairs and Maintenance | 139,751 |
| Administrative Expenses: | |
| Directors Fees | - |
| Office Supplies | 1,718 |
| Insurance | 128,565 |
| Other Administrative Expenses | 28,874 |
| Depreciation Expense | 1,299,550 |
| Capital Outlay: | |
| Capitalized Assets | - |
| Expenses not Capitalized | - |
| Tap Connection Expenses | - |
| Solid Waste Disposal | - |
| Amortized Regulatory Asset | (84,207) |
| Interest Expense | 726,656 |
| Other Expenses | 1,553,423 |
| TOTAL EXPENSES | <u>\$ 5,945,478</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-3. Temporary Investments
For the Year Ended September 30, 2022

| Funds | Interest Rate | Maturity Date | Balance at Year End | Accrued Interest Rec at Year End |
|--|------------------|------------------|------------------------|--|
| US Bank | 2.91% | N/A | \$ 24,478 | \$ - |
| US Bank | 2.91% | N/A | 118,986 | - |
| US Bank | 2.91% | N/A | 51,772 | - |
| US Bank | 2.91% | N/A | 28,402 | - |
| US Bank - Treasury Bill | 2.91% | 01/19/23 | 643,442 | 3,372 |
| Wells Fargo - Inst. Insured Liquid Dep | 2.95% | N/A | 2,000,594 | - |
| TexPool | 2.85% | N/A | 1,345,856 | - |
| Texas TERM | 4.120% | 03/24/23 | 500,000 | 508 |
| Texas TERM | 3.420% | 02/21/23 | 500,000 | 1,968 |
| Texas TERM | 3.320% | 01/31/23 | 500,000 | 2,865 |
| Texas TERM | 3.070% | 11/30/22 | 500,000 | 1,220 |
| Texas Daily | 2.91% | N/A | 1,692,274 | - |
| Texas TERM CD Program | 3.350% | 12/19/22 | 247,000 | 261 |
| Texas TERM CD Program | 3.100% | 01/30/23 | 246,000 | 1,270 |
| Texas TERM CD Program | 4.100% | 04/27/23 | 244,000 | 28 |
| Total | | | <u>\$ 8,642,804</u> | <u>\$ 11,492</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009A) – by Years
For the Year Ended September 30, 2022

| DUE DURING FISCAL YEARS ENDING | Series 2009A | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| | Principal Due 09/01 | Interest Due 03/01, 09/01 | Total |
| 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>\$ 5,265,000</u> | <u>\$ -</u> | <u>\$ 5,265,000</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2009B) – by Years - Continued
For the Year Ended September 30, 2022

| DUE DURING FISCAL YEARS ENDING | Series 2009B | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| | Principal Due 09/01 | Interest Due 03/01, 09/01 | Total |
| 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>\$ 1,680,000</u> | <u>\$ 289,925</u> | <u>\$ 1,969,925</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2012) – by Years - Continued
For the Year Ended September 30, 2022

| DUE DURING FISCAL YEARS ENDING | Series 2012 | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| | Principal Due 09/01 | Interest Due 03/01, 09/01 | Total |
| 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>\$ 5,950,000</u> | <u>\$ 818,100</u> | <u>\$ 6,768,100</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(Series 2017) – by Years - Continued
For the Year Ended September 30, 2022

| DUE DURING FISCAL YEARS ENDING | Series 2017 | | |
|-----------------------------------|------------------------|------------------------------|----------------------|
| | Principal Due 09/01 | Interest Due 03/01, 09/01 | Total |
| 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>\$ 2,687,800</u> | <u>\$ 11,007,800</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-5. Long-Term Debt Service Requirements
(All Debt Series) – by Years
For the Year Ended September 30, 2022

| DUE DURING FISCAL YEARS ENDING | Annual Requirements for All Series | | |
|-----------------------------------|------------------------------------|------------------------------|----------------------|
| | Principal Due 09/01 | Interest Due 03/01, 09/01 | Total |
| 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>\$ 21,215,000</u> | <u>\$ 3,795,825</u> | <u>\$ 25,010,825</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-6. Changes in Long-Term Debt
For the Year Ended September 30, 2022

| | <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 | \$ 5,575,000 | \$ 1,885,000 | \$ 6,980,000 | \$ 8,320,000 |
| Bonds Sold During the Fiscal Year | - | - | - | - |
| Bonds Retired During the Fiscal Year | <u>(310,000)</u> | <u>(205,000)</u> | <u>(1,030,000)</u> | <u>-</u> |
| Ending Bonds Outstanding | <u>\$ 5,265,000</u> | <u>\$ 1,680,000</u> | <u>\$ 5,950,000</u> | <u>\$ 8,320,000</u> |
| Interest Paid During the Fiscal Year | \$ - | \$ 74,248 | \$ 319,608 | \$ 332,800 |
| 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, 2022: \$ 210,804

Average annual debt service payment (Principal and Interest) for remaining term of all debt: \$ 1,471,225

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 | | | | |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------------|---------------|---------------|--------------|---------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Operating Revenues: | | | | | | | | | | |
| Member Assessments | \$ 6,722,915 | \$ 5,942,279 | \$ 6,899,420 | \$ 6,907,522 | \$ 6,936,183 | 100.0% | 100.0% | 100.0% | 100% | 100.0% |
| Sewer service | - | - | - | - | - | - | - | - | - | - |
| Application fees | - | - | - | - | - | - | - | - | - | - |
| Penalty and interest | - | - | - | - | - | - | - | - | - | - |
| Tap connection fees | - | - | - | - | - | - | - | - | - | - |
| Interest on time deposit | - | - | - | - | - | - | - | - | - | - |
| Total Operating Revenues | <u>6,722,915</u> | <u>5,942,279</u> | <u>6,899,420</u> | <u>6,907,522</u> | <u>6,936,183</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100%</u> | <u>100.0%</u> |
| Operating Expenses: | | | | | | | | | | |
| Personnel | 726,033 | 586,687 | 583,318 | 612,196 | 603,668 | 10.8% | 9.9% | 8.5% | 8.9% | 8.7% |
| Professional fees | 224,199 | 147,239 | 220,787 | 223,304 | 178,951 | 3.3% | 2.5% | 3.2% | 3.2% | 2.6% |
| Contracted services | 109,250 | 99,415 | 95,560 | 74,407 | 59,456 | 1.6% | 1.7% | 1.4% | 1.1% | 0.9% |
| Repairs and Maintenance | 139,751 | 114,815 | 306,957 | 59,803 | 118,267 | 2.1% | 1.9% | 4.4% | 0.9% | 1.7% |
| Utilities | 1,091,666 | 980,971 | 1,096,419 | 1,095,005 | 1,076,252 | 16.2% | 16.5% | 15.9% | 15.9% | 15.5% |
| Material and supplies | 1,457,643 | 949,082 | 854,652 | 1,215,305 | 1,371,376 | 21.7% | 16.0% | 12.4% | 17.6% | 19.8% |
| Other Expenses | 247,587 | 213,254 | 195,846 | 160,405 | 165,019 | 3.7% | 3.6% | 2.8% | 2.3% | 2.4% |
| Depreciation | 1,299,550 | 1,283,498 | 1,287,437 | 1,276,262 | 1,250,362 | 19.3% | 21.6% | 18.7% | 18.5% | 18.0% |
| Total Operating Expenses | <u>5,295,679</u> | <u>4,374,961</u> | <u>4,640,976</u> | <u>4,716,687</u> | <u>4,823,351</u> | <u>78.8%</u> | <u>73.6%</u> | <u>67.3%</u> | <u>68.3%</u> | <u>69.5%</u> |
| Operating Income | <u>1,427,236</u> | <u>1,567,318</u> | <u>2,258,444</u> | <u>2,190,835</u> | <u>2,112,832</u> | <u>21.2%</u> | <u>26.4%</u> | <u>32.7%</u> | <u>31.7%</u> | <u>30.5%</u> |
| Non-Operating Revenues (Expenses) | | | | | | | | | | |
| Interest Revenue | 74,497 | 16,604 | 114,089 | 229,638 | 134,535 | 1.1% | 0.3% | 1.7% | -3.3% | -1.0% |
| Bond Discount Amortization | | | | | | 0.0% | 0.0% | 0.0% | 0.0% | - |
| Amortized Regulatory Asset and Others | 84,207 | 7,437 | 7,437 | 7,437 | 7,437 | 1.3% | 0.1% | 0.1% | -0.1% | 0.1% |
| Interest Expense | (726,656) | (782,442) | (835,410) | (870,055) | (916,580) | -10.8% | -13.2% | -12.1% | 12.6% | 14.6% |
| Other Non Operating Revenue (Expenses) | (6,320) | (6,243) | (11,828) | (7,356) | (8,514) | -0.1% | -0.1% | -0.2% | 0.1% | 0.1% |
| Gain/(Loss) on Disposition of Assets | (1,030) | - | - | - | - | | | | | |
| Total Non-Operating Revenues (Expenses) | <u>(575,302)</u> | <u>(764,644)</u> | <u>(725,712)</u> | <u>(640,336)</u> | <u>(783,122)</u> | <u>-8.5%</u> | <u>-12.9%</u> | <u>-10.5%</u> | <u>9.3%</u> | <u>13.8%</u> |
| Income before Capital Contributions | <u>851,934</u> | <u>802,674</u> | <u>1,532,732</u> | <u>1,550,499</u> | <u>1,329,710</u> | <u>12.7%</u> | <u>13.5%</u> | <u>22.2%</u> | <u>41.0%</u> | <u>44.3%</u> |
| Capital Contributions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>123,831</u> | <u>0.0%</u> | <u>0.0%</u> | <u>0.0%</u> | <u>0.0%</u> | <u>2.4%</u> |
| Net Income | <u>\$ 851,934</u> | <u>\$ 802,674</u> | <u>\$ 1,532,732</u> | <u>\$ 1,550,499</u> | <u>\$ 1,453,541</u> | <u>12.7%</u> | <u>13.5%</u> | <u>22.2%</u> | <u>41.0%</u> | <u>46.7%</u> |

SOUTHMOST REGIONAL WATER AUTHORITY
TSI-8. Board Members, Key Personnel, and Consultants
For the Year Ended September 30, 2022

| | | | | |
|---|---|--------------------|--|--|
| 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 22, 2022 | | |
| (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* 9/30/2022 | Expense Reimbursements 9/30/2022 | Title at 9/30/2022 |
|-------------------------------------|--|---|--|--|
| *Board Members: | | | | |
| Jude Benavides | August 2019 | \$ - | \$ - | President |
| Roger Nelson | September 2016 | - | - | Vice-President |
| Gabriela Fernandez | May 2022 | - | - | Treasurer |
| Ralph Cowen | July 2012 | - | - | Secretary |
| John S. Bruciak | November 2006 | - | - | Deputy Secretary/Treasurer |
| James Chambers | November 2018 | - | - | Director |
| Administrative Personnel: | | | | |
| John S. Bruciak | July 1979 | \$ - | \$ - | General Manager & CEO |
| Miguel A. Perez | June 2006 | - | - | Chief Financial Officer |
| Marilyn D. Gilbert | April 2022 | - | - | 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 | \$ - | \$ 11,797 | General Counsel |
| Orrick, Herrington & Stuclyffe, LLP | March 2018 | - | - | Bond Counsel |
| Estrada Hinojosa & Company | September 2006 | - | - | Financial Advisor |
| Baker Tilly US, LLP | July 2019 | - | 10,350 | External Auditors |

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

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

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

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 Southmost Regional Water Authority as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Southmost Regional Water Authority's financial statements, and have issued our report thereon dated February 3, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southmost Regional Water Authority's internal control over financial reporting (internal control) as a basis for designing 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 Southmost Regional Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southmost Regional Water 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 financial statements. 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.

Burton, McCumber, & Longoria LLP

Brownsville, Texas
February 3, 2023