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January 4, 2019

Board of Directors
Trinity Bay Conservation District
Anahuac, Texas

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of Trinity Bay Conservation District (the District) as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Trinity Bay Conservation District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, during the audit we noted several matters that are opportunities for strengthening internal control or for operational improvements. This letter does not affect our report dated January 4, 2019, on the financial statements of Trinity Bay Conservation District.

1. FINDING AND RECOMMENDATION

The District has certain loan covenants that it is required to meet and has met those requirements in all prior years. The budget as approved by the District for 2019 does not ensure that the District will meet those criteria. The District should amend the budget to reflect amounts that coincide with the requirements.

2. FINDING AND RECOMMENDATION

The District began accounting for inventory at the end of 2018. The District should continue developing an inventory control and reporting system. Additionally, the District should consider performing periodic inventory counts. At a minimum, an inventory count should be performed at yearend.

3. FINDING AND RECOMMENDATION

As noted in prior years, the District has many ongoing projects. As the District is growing, District personnel outside of the accounting department are more involved in accounting classifications and other activities that have a direct and material effect on the accounting position of the District. In order to preserve the integrity of financial reporting, the District may need to set new internal controls and procedures in certain areas. Additionally, the District should determine specific personnel with responsibility of these activities with certainty. Operations personnel that are involved in classifications or projects should be apprised of accounting principles surrounding those activities and the effect on the financial reporting of the District as well as the interrelated effects on the responsibilities of others within the District.

4. FINDING AND RECOMMENDATION

As noted in prior years, projects should be classified as capital expenditures. Although progress was made in this area, the District should be careful not to include amounts that do not meet the accounting definition of a capital expenditure. Repairs are not capital expenditures unless they meet certain criteria. Also, due to the numerous projects during the year, the District should develop a project identification system to identify all transactions from beginning to completion by that project. Such a numbering system would aid in the recognition of capital expenditures and capital assets. Additionally, the status of such projects should be monitored and reported to accounting monthly.

5. FINDING AND RECOMMENDATION

As noted in prior year, the District charges customers for certain water and sewer projects. Many times a payout agreement is executed with the customer and the detail charges are listed therein. The District has made improvements in the processes in this area during the year. However, additional clarification and streamlining between District personnel is needed in order to make sure the information is complete and accurate. Any subsequent determination of uncollectibility should be formally documented and submitted to accounting for adjustment in the books and records.

6. FINDING AND RECOMMENDATION

As noted in the prior year's audit, the District has ongoing projects with Chambers County, Texas which are funded by grants. Chambers County is the grantee. The District is the beneficiary of the projects of the grants. Once the projects are completed, the capital addition and a capital contribution from grant should be recorded by Trinity Bay. District accounting personnel need to be provided the following, in order to record the capital contribution from the grant: a copy of the grant, the budget for the grant including any matching amounts by the District, actual costs of the project by specific structure and written notification that the project is completed.

Trinity Bay is also coordinating certain projects for the County. The District is utilizing District personnel and equipment on this project. Invoices to the County should be submitted promptly. The billings to the County are not grant income to the District. Instead, they are intergovernmental charges for services revenues. The District should bill or accrue amounts due to the District as part of each closing cycle.

We have discussed the above with certain District personnel and would be pleased to discuss them further or to help with their implementation.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.

Liberty, Texas

**TRINITY BAY CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**TRINITY BAY CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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FINANCIAL SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Trinity Bay Conservation District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Trinity Bay Conservation District (the District), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Trinity Bay Conservation District, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 3 through 9 and 36 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2019, on our consideration of Trinity Bay Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
January 4, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Trinity Bay Conservation District’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended September 30, 2018. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

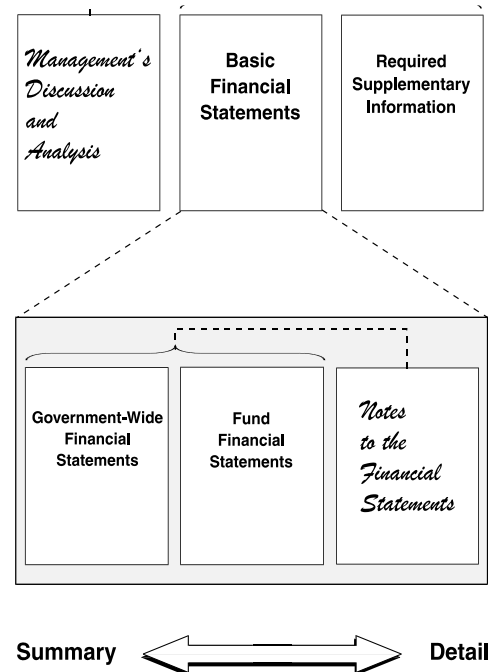
- The District’s total combined net position was \$34.3 million at September 30, 2018, compared to \$31.5 million at the end of 2017.
- The District’s total revenues for fiscal 2018 were \$11.5 million. The District’s operating revenues consisted primarily of charges for water and wastewater services of \$4.8 million and property taxes of \$3.3 million. The District also recognized capital contributions of \$2.8 million which funded certain property additions. Revenues also included intergovernmental revenues for construction services of \$0.4 million. During the year ended September 30, 2018, the District’s total expenses of \$8.7 million were consistent with 2017 in all functions. Revenues and expenditures for 2017 were \$9.7 million and \$8.7 million, respectively. Revenues in 2017 included capital contributions of \$1.3 million.
- Property tax revenues increased \$0.2 million (7%) compared to 2017 due to an increase in property valuations compared to the prior year. The District property tax rate was consistent with the prior year.
- During 2018, the District recognized a capital contribution of completed salt water barrier structures financed through a grant to Chambers County, Texas of \$2.8 million.
- The general fund reported a fund balance of \$4.0 million at September 30, 2018 compared to \$4.6 million at the end of fiscal 2017. The reduction in the general fund balance is primarily due to the general fund transferring \$1.0 million to the water and wastewater fund during 2018 to aid in the funding of system construction projects in that fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. Additionally, the District implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the District include (a) Management’s Discussion and Analysis, (b) Government-wide Financial Statements, (c) Fund Financial Statements, (d) Notes to Financial Statements; and (e) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements is discussed below:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the District’s Government-wide and Fund Financial Statements

| <i>Type of Statements</i> | Government-wide | Governmental Funds | Proprietary Funds |
|---|--|--|---|
| Scope | Entire District’s government (except for fiduciary funds) and the District’s component units | The activities of the District that are not proprietary or fiduciary | Activities the District operates similar to private businesses |
| Required financial statements | <ul style="list-style-type: none"> ▪ Statement of Net Position ▪ Statement of Activities | <ul style="list-style-type: none"> ▪ Balance sheet ▪ Statement of Revenues, Expenditures & Changes in Fund Balances | <ul style="list-style-type: none"> ▪ Statement of Net Position ▪ Statement of Revenues, Expenses and Changes in Net Position ▪ Statement of Cash Flows |
| Accounting basis & measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid |

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s financial statement elements. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how they have changed. Net position—the difference between the District’s assets, liabilities and deferred inflows and outflows of resources—is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District’s tax base.

The government-wide financial statements of the District include the *Governmental activities* and *Business-type activities*. *Governmental Activities* include the District’s basic services such as general government, drainage maintenance and improvement, and interest on long-term debt. Property taxes and grants finance most of these activities. The *Business-type activities* include wastewater services and are financed through user charges.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental Funds*—Most of the District’s basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary Funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District’s combined net position was \$34.3 million at September 30, 2018, compared to \$31.5 million at September 30, 2017. (See Table A-1).

Table A-1
District’s Net Position
(In thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2018-2017 |
|----------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|--------------------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Assets: | | | | | | | |
| Cash and Investments | \$3,485.8 | \$4,044.3 | \$666.8 | \$665.6 | \$4,152.6 | \$4,709.9 | -11.8% |
| Accounts Receivable, Net | 0.4 | 3.1 | 447.8 | 470.2 | 448.2 | 473.3 | -5.3% |
| Taxes Receivable, Net | 156.6 | 163.1 | - | - | 156.6 | 163.1 | -4.0% |
| Due from Other Governments | 452.4 | 511.8 | 0.6 | 0.6 | 453.0 | 512.4 | -11.6% |
| Internal Balances | (44.4) | (15.6) | 44.4 | 15.6 | - | - | 0% |
| Inventory | - | - | 115.0 | - | 115.0 | - | 100.0% |
| Restricted Assets | | | | | | | |
| Cash and Investments | 118.5 | 118.5 | 1,885.7 | 1,848.8 | 2,004.2 | 1,967.3 | 1.9% |
| Capital Assets, Net | 10,842.0 | 8,728.4 | 27,742.3 | 27,623.4 | 38,584.3 | 36,351.8 | 6.1% |
| Total Assets | 15,011.3 | 13,553.6 | 30,902.6 | 30,624.2 | 45,913.9 | 44,177.8 | 3.9% |
| Deferred Outflows of Resources | 676.8 | 777.0 | - | - | 676.8 | 777.0 | -12.9% |
| Liabilities: | | | | | | | |
| Accounts Payable | 30.4 | 70.5 | 281.8 | 230.8 | 312.2 | 301.3 | 3.6% |
| Due to Other Governments | 15.1 | - | 22.9 | 16.5 | 38.0 | 16.5 | 130.3% |
| Accrued Interest Payable | - | - | 36.2 | 38.5 | 36.2 | 38.5 | -6.0% |
| Accrued Pension Obligation | 1,251.4 | 1,727.2 | - | - | 1,251.4 | 1,727.2 | -27.5% |
| Service Deposits | - | - | 698.3 | 675.2 | 698.3 | 675.2 | 3.4% |
| Long-Term Liabilities: | | | | | | | |
| Due Within One Year | 528.2 | 552.3 | 663.6 | 642.8 | 1,191.8 | 1,195.1 | -0.3% |
| Due in More Than One Year | 420.9 | 714.7 | 7,944.1 | 8,657.6 | 8,365.0 | 9,372.3 | -10.7% |
| Total Liabilities | 2,246.0 | 3,064.7 | 9,646.9 | 10,261.4 | 11,892.9 | 13,326.1 | -10.8% |
| Deferred Inflows of Resources | 424.1 | 90.7 | - | - | 424.1 | 90.7 | 367.6% |
| Net Position: | | | | | | | |
| Net Investment in Capital Assets | 10,097.0 | 7,657.4 | 19,134.6 | 18,323.0 | 29,231.6 | 25,980.4 | 12.5% |
| Restricted for Debt Service | - | - | 1,151.2 | 1,135.0 | 1,151.2 | 1,135.0 | 1.4% |
| Unrestricted | 2,921.0 | 3,517.8 | 969.9 | 904.8 | 3,890.9 | 4,422.6 | -12.0% |
| Total Net Position | \$13,018.0 | \$11,175.2 | \$21,255.7 | \$20,362.8 | \$34,273.7 | \$31,538.0 | 8.7% |

At September 30, 2018, the District has invested \$29.2 million in capital assets, net of related debt. Approximately \$1.1 million of the District's net position are restricted for debt service. The \$3.9 million of unrestricted net position represents resources available to fund the programs of the District next year. This compares to \$26.0 million invested in capital assets, net of related debt, \$1.1 million restricted for debt service, and \$4.4 million of unrestricted net position at September 30, 2017.

Changes in net position. The District's total revenues were \$11.5 million in 2018. During 2018, the District received capital contributions of \$2.8 million which accounted for 24% of overall revenue. Without consideration of the capital contribution, the District's revenue comes from charges services (61%) and property taxes (38%). (See Figure A-3.) In 2017, capital contributions represented 13% of total revenue. Without consideration of the capital contributions, charges for services and property taxes were 62% and 36% of total revenue. The total cost of all programs and services was \$8.7 million, consistent with 2017. Normal operating expenses by function included water and wastewater (\$4.8 million), drainage (\$2.8 million), administration (\$0.8 million) and interest on debt (\$0.3 million).

The District's positive change in net position of \$2.7 million is due primarily to recognized capital contributions of \$2.8 million. During 2017, the District had an increase in net position of \$1.0 million including \$1.3 million in capital grant activity.

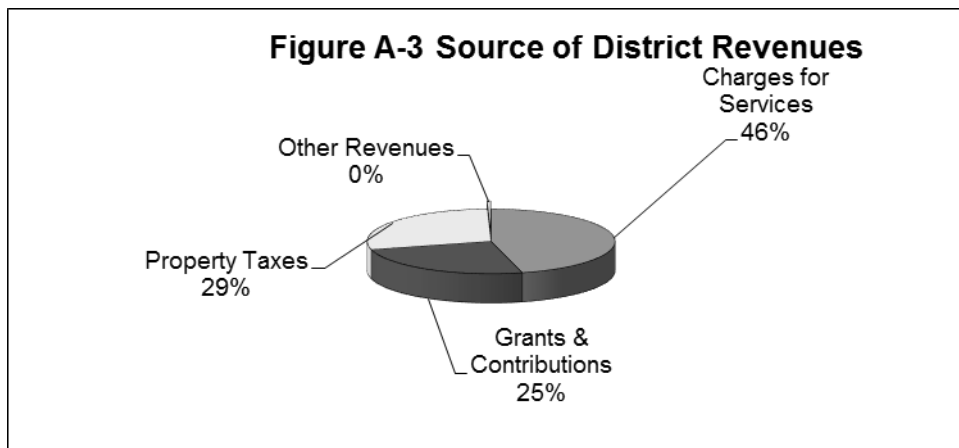


Table A-2
Changes in the District's Net Position
(In thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2018-2017 |
|--|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|-----------------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Program Revenues: | | | | | | | |
| Charges for Services - Construction Services | \$443.2 | \$389.8 | - | - | \$443.2 | \$389.8 | 13.7% |
| Water and Wastewater | - | - | \$4,830.7 | \$4,821.7 | 4,830.7 | 4,821.7 | 0.2% |
| Operating Grants and Contributions | 46.6 | - | 38.7 | - | 85.3 | - | 100.0% |
| Capital Grants and Contributions | 2,774.3 | - | - | 1,287.4 | 2,774.3 | 1,287.4 | 115.5% |
| General Revenues: | | | | | | | |
| Property Taxes | 3,291.3 | 3,077.5 | - | - | 3,291.3 | 3,077.5 | 6.9% |
| Other Taxes | 10.1 | 6.2 | - | - | 10.1 | 6.2 | 62.9% |
| Investment Earnings | 8.3 | 9.0 | 8.8 | 8.5 | 17.1 | 17.5 | -2.9% |
| Gain (Loss) on Disp. of Assets | - | 53.5 | - | 41.2 | - | 94.7 | -100.0% |
| Other Revenues | 13.9 | 17.9 | 11.9 | 9.2 | 25.8 | 27.1 | -4.8% |
| Total Revenues | 6,587.7 | 3,553.9 | 4,890.1 | 6,168.0 | 11,477.8 | 9,721.9 | 18.1% |
| Expenses by Functions/Programs | | | | | | | |
| General Administration | 870.3 | 921.4 | - | - | 870.3 | 921.4 | -5.5% |
| Drainage | 2,778.4 | 2,689.0 | - | - | 2,778.4 | 2,689.0 | 3.3% |
| Water and Wastewater | - | - | 4,801.1 | 4,757.5 | 4,801.1 | 4,757.5 | 0.9% |
| Interest on Long-term Debt | 31.9 | 32.8 | 260.4 | 278.9 | 292.3 | 311.7 | -6.2% |
| Total Expenses | 3,680.6 | 3,643.2 | 5,061.5 | 5,036.4 | 8,742.1 | 8,679.6 | 0.7% |
| Transfers | (1,064.3) | (224.4) | 1,064.3 | 224.4 | - | - | 0.0% |
| Change in Net Position | 1,842.8 | (313.7) | 892.9 | 1,356.0 | 2,735.7 | 1,042.3 | 162.5% |
| Net Position – Beginning of | 11,175.2 | 11,488.9 | 20,362.8 | 19,006.8 | 31,538.0 | 30,495.7 | 3.4% |
| Net Position – End of Year | <u>\$13,018.0</u> | <u>\$11,175.2</u> | <u>\$21,255.7</u> | <u>\$20,362.8</u> | <u>\$34,273.7</u> | <u>\$31,538.0</u> | 8.7% |

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local tax dollars and miscellaneous income.

- The cost of all *governmental* activities this year was \$3.7 million.
- The District received intergovernmental revenues for construction services of \$0.4 million in 2018 and 2017.
- The Drainage function also received capital contributions in 2018 of \$2.8 million.
- The amount that our taxpayers paid for these activities was \$3.3 million in property and other taxes in 2018.

Table A-3
Net Cost of Governmental-Type District Functions
(in thousands of dollars)

| | Total Cost of Services | | % Change 2018-2017 | Net Cost of Services | | % Change 2018-2017 |
|----------------------------|------------------------|------------------|-----------------------|----------------------|------------------|-----------------------|
| | 2018 | 2017 | | 2018 | 2017 | |
| General Administration | \$870.3 | \$921.4 | -5.5% | \$870.3 | \$921.4 | -5.5% |
| Drainage | 2,778.4 | 2,689.0 | 3.3% | (485.7) | 2,299.2 | -121.1% |
| Interest on Long-term Debt | 31.9 | 32.8 | -2.7% | 31.9 | 32.8 | -2.7% |
| Total | <u>\$3,680.6</u> | <u>\$3,643.2</u> | 1.0% | <u>\$416.5</u> | <u>\$3,253.4</u> | -87.2% |

Business-type Activities

Revenues of the District's business-type activities decreased \$1.3 million to \$4.9 million compared to fiscal year 2017. The decrease was primarily attributable to a capital contribution of \$1.3 million in 2017 for wastewater facilities that was not recurring in 2018. Expenses for business type activities remained consistent at \$5.0 million for both 2018 and 2017.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues for the District's governmental fund types (the General Fund) totaled \$3.8 million in 2018, an increase of \$0.2 million from 2017. Revenues in 2018 included property taxes of \$3.3 million compared to \$3.1 million in 2017. Total expenditures were \$3.4 million with no significant capital expenditures. Governmental expenditures included 63% of the expenditures for drainage maintenance and improvements, 26% were for general administrative services of the District, and debt service accounted for the remaining 11% of expenditures.

General Fund Budgetary Highlights

The District revised its budget during the year as needed. Actual revenue amounts were 16% higher than budgeted amounts, primarily due to intergovernmental revenues resulting from projects with Chambers County, Texas. Operating expenditures were \$0.2 million (6%) lower than budgeted due to lower contract services, capital expenditures and supplies compared to budgeted amounts. The District ended the year with an overall \$0.7 million positive variance from budgeted amounts and realized a \$0.6 million use of reserves. The District had budgeted a net use of reserves of \$1.3 million. The budgeted use of reserves was expected because of a transfer of \$1.1 million to the Water and Wastewater Fund for capital improvements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had invested \$66.9 million in a broad range of capital assets, including land, equipment, buildings, vehicles, utility systems and infrastructure. (See Table A-4.) This amount represents an increase of \$4.3 million from last year primarily as a result of capital contributions of drainage infrastructure and construction of water and wastewater facilities improvements.

Table A-4
District's Capital Assets
(In thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2018-2017 |
|------------------------------------|-------------------------|------------------|--------------------------|-------------------|-------------------|-------------------|-----------------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Land and Easements | \$681.3 | \$681.3 | \$1,107.1 | \$1,107.1 | \$1,788.4 | \$1,788.4 | 0.0% |
| Construction in Progress | - | - | 946.8 | 96.4 | 946.8 | 96.4 | 882.2% |
| Buildings and Improvements | - | - | 3,776.3 | 3,776.3 | 3,776.3 | 3,776.3 | 0.0% |
| Office Furniture, Fixtures & Equip | 159.1 | 153.1 | 113.4 | 111.9 | 272.5 | 265.0 | 2.8% |
| Vehicles | 519.0 | 491.5 | 560.1 | 513.0 | 1,079.1 | 1,004.5 | 7.4% |
| Machinery and Equipment | 3,100.5 | 2,790.5 | 936.9 | 748.4 | 4,037.4 | 3,538.9 | 14.1% |
| Assets Held Under Capital Lease | 1,759.8 | 2,039.5 | 167.1 | 167.1 | 1,926.9 | 2,206.6 | -12.7% |
| Water and Wastewater Systems | - | - | 40,438.3 | 40,077.2 | 40,438.3 | 40,077.2 | 0.9% |
| Infrastructure-Drainage Systems | 12,674.6 | 9,900.3 | - | - | 12,674.6 | 9,900.3 | 28.0% |
| Totals at Historical Cost | <u>18,894.3</u> | <u>16,056.2</u> | <u>48,046.0</u> | <u>46,597.4</u> | <u>66,940.3</u> | <u>62,653.6</u> | 6.8% |
| Total Accumulated Depreciation | <u>(8,052.3)</u> | <u>(7,327.8)</u> | <u>(20,303.7)</u> | <u>(18,974.0)</u> | <u>(28,356.0)</u> | <u>(26,301.8)</u> | 7.8% |
| Net Capital Assets | <u>\$10,842.0</u> | <u>\$8,728.4</u> | <u>\$27,742.3</u> | <u>\$27,623.4</u> | <u>\$38,584.3</u> | <u>\$36,351.8</u> | 6.1% |

Long-Term Debt

At year-end the District had \$9.6 million in debt outstanding as shown in Table A-5. The District's debt is currently unrated. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
District's Long-Term Debt
(In thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2018-2017 |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|-------------------|-----------------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Capital Lease Obligations | \$745.1 | \$1,071.0 | \$21.1 | \$37.1 | \$766.2 | \$1,108.1 | -30.9% |
| Compensated Absences Payable | 204.0 | 196.0 | - | - | 204.0 | 196.0 | 4.1% |
| Bonds Payable, 2014 Series | - | - | 2,760.0 | 2,810.0 | 2,760.0 | 2,810.0 | -1.8% |
| Bonds Payable, 2012 Series | - | - | 5,395.0 | 5,975.0 | 5,395.0 | 5,975.0 | -9.7% |
| Total | <u>949.1</u> | <u>1,267.0</u> | <u>8,176.1</u> | <u>8,822.1</u> | <u>9,125.2</u> | <u>10,089.1</u> | -9.6% |
| Bond Premiums Remaining | - | - | 431.6 | 478.3 | 431.6 | 478.3 | -9.8% |
| Total Long-term Debt | <u>\$949.1</u> | <u>\$1,267.0</u> | <u>\$8,607.7</u> | <u>\$9,300.4</u> | <u>\$9,556.8</u> | <u>\$10,567.4</u> | -9.6% |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- General fund revenues are expected to be \$3.6 million. Property tax revenues for 2019 for the general fund are expected to be higher than 2018 by \$0.2 million (6%). Tax rates for the District are expected to remain the same as 2018.
- General operating fund spending in the 2019 budget is \$5.2 million, including a transfer to the water and wastewater fund of \$1.3 million. As a result, the budget expects use of prior reserves of \$1.5 million.

These indicators were taken into account when adopting the general fund budget for 2019. The District has added no major new programs or initiatives to the 2019 budget.

The water and wastewater revenues are expected to be \$4.8 million for the 2019 budget which is an increase of \$0.3 million over 2018 budgeted amounts. The budget also includes an additional \$1.3 million transfer from the general fund. Expenditures are expected to be \$6.1 million. As a result, the budget expects use of prior reserves of \$0.3 million.

If these estimates are realized, the District's fund balances for general fund and water and wastewater fund are expected to decline \$1.5 million and \$0.3 million, respectively, as the District utilizes reserves from prior years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Department.

BASIC FINANCIAL STATEMENTS

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| <u>ASSETS</u> | | | |
| Cash and Investments | \$3,485,829 | \$666,827 | \$4,152,656 |
| Accounts Receivable, Net | 400 | 447,800 | 448,200 |
| Taxes Receivable, Net | 156,568 | - | 156,568 |
| Due from Other Governments | 452,419 | 628 | 453,047 |
| Internal Balances | (44,372) | 44,372 | - |
| Inventory | - | 115,019 | 115,019 |
| Restricted Assets: | | | |
| Cash and Investments | 118,478 | 1,885,708 | 2,004,186 |
| Capital Assets, Net | 10,842,033 | 27,742,297 | 38,584,330 |
| TOTAL ASSETS | 15,011,355 | 30,902,651 | 45,914,006 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| | 676,769 | - | 676,769 |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | 30,432 | 281,849 | 312,281 |
| Due to Other Governments | 15,108 | 22,930 | 38,038 |
| Accrued Interest Payable | - | 36,153 | 36,153 |
| Service Deposits | - | 698,296 | 698,296 |
| Net Pension Obligation | 1,251,404 | - | 1,251,404 |
| Long-term Liabilities: | | | |
| Due Within One Year | 528,210 | 663,609 | 1,191,819 |
| Due In More Than One Year | 420,870 | 7,944,128 | 8,364,998 |
| TOTAL LIABILITIES | 2,246,024 | 9,646,965 | 11,892,989 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| | 424,122 | - | 424,122 |
| <u>NET POSITION</u> | | | |
| Net Investment in Capital Assets | 10,096,939 | 19,134,560 | 29,231,499 |
| Restricted for Debt Service | - | 1,151,259 | 1,151,259 |
| Unrestricted | 2,921,039 | 969,867 | 3,890,906 |
| TOTAL NET POSITION | \$13,017,978 | \$21,255,686 | \$34,273,664 |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--------------------------------|--------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Government Activities: | | | | |
| General Administration | \$870,325 | - | - | - |
| Drainage | 2,778,411 | \$443,238 | \$46,601 | \$2,774,314 |
| Interest on Long-term Debt | 31,885 | - | - | - |
| Total Governmental Activities | <u>3,680,621</u> | <u>443,238</u> | <u>46,601</u> | <u>2,774,314</u> |
| Business-Type Activities: | | | | |
| Water and Wastewater | 4,801,122 | 4,830,666 | 38,712 | - |
| Interest on Long-term Debt | 260,355 | - | - | - |
| Total Business-Type Activities | <u>5,061,477</u> | <u>4,830,666</u> | <u>38,712</u> | <u>-</u> |
| Totals | <u>\$8,742,098</u> | <u>\$5,273,904</u> | <u>\$85,313</u> | <u>\$2,774,314</u> |

General Revenues:
Property Taxes Levied For:
 General Purposes
 Other Taxes
 Miscellaneous Income
 Investment Income
Total General Revenues and Transfers

Transfers

Change in Net Position
Net Position, Beginning of Year
Net Position, End of Year

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| \$ (870,325) | - | \$ (870,325) |
| 485,742 | - | 485,742 |
| (31,885) | - | (31,885) |
| <u>(416,468)</u> | <u>-</u> | <u>(416,468)</u> |
| - | \$68,256 | 68,256 |
| - | (260,355) | (260,355) |
| - | <u>(192,099)</u> | <u>(192,099)</u> |
| <u>(416,468)</u> | <u>(192,099)</u> | <u>(608,567)</u> |
| 3,291,278 | - | 3,291,278 |
| 10,115 | - | 10,115 |
| 13,902 | 11,907 | 25,809 |
| 8,260 | 8,782 | 17,042 |
| <u>3,323,555</u> | <u>20,689</u> | <u>3,344,244</u> |
| (1,064,300) | 1,064,300 | - |
| 1,842,787 | 892,890 | 2,735,677 |
| 11,175,191 | 20,362,796 | 31,537,987 |
| <u>\$13,017,978</u> | <u>\$21,255,686</u> | <u>\$34,273,664</u> |

TRINITY BAY CONSERVATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--------------------------------------|---|
| <u>ASSETS</u> | | | |
| Cash and Investments | \$3,485,829 | - | \$3,485,829 |
| Taxes Receivable | 494,363 | - | 494,363 |
| Less: Allowance for Uncollectible Taxes | (337,795) | - | (337,795) |
| Other Receivables | 400 | - | 400 |
| Due from Other Governments | 143,066 | \$309,353 | 452,419 |
| Due from Other Funds | 427,831 | - | 427,831 |
| Restricted Assets: | | | |
| Cash and Investments | - | 118,478 | 118,478 |
| TOTAL ASSETS | <u>4,213,694</u> | <u>427,831</u> | <u>4,641,525</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| | - | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$4,213,694</u> | <u>\$427,831</u> | <u>\$4,641,525</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$30,432 | - | \$30,432 |
| Due to Other Governments | 15,108 | - | 15,108 |
| Due to Other Funds | 44,372 | \$427,831 | 472,203 |
| TOTAL LIABILITIES | <u>89,912</u> | <u>427,831</u> | <u>517,743</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Unavailable Revenue – Property Taxes | 156,568 | - | 156,568 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>156,568</u> | <u>-</u> | <u>156,568</u> |
| <u>FUND BALANCES</u> | | | |
| Restricted: | | | |
| Capital Projects | - | - | - |
| Unassigned | 3,967,214 | - | 3,967,214 |
| TOTAL FUND BALANCES | <u>3,967,214</u> | <u>-</u> | <u>3,967,214</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$4,213,694</u> | <u>\$427,831</u> | <u>\$4,641,525</u> |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

| | |
|---|---------------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$3,967,214 |
| Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 10,842,033 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | 156,568 |
| Long-term liabilities for capital leases which were not due in the current period are not reported in the funds. | (745,094) |
| Payables for compensated absences which were not due in the current period are not reported in the funds. | (203,986) |
| Liability for pension obligation is not reported in the funds. | (1,251,404) |
| Deferred inflows and outflows of resources related to pensions is not reported in the funds. | <u>252,647</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$13,017,978</u> |

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2018

| | General Fund | Capital Projects Fund | Total Governmental Funds |
|--|--------------------|-----------------------------|--------------------------------|
| REVENUES: | | | |
| Ad Valorem Taxes | \$3,237,128 | - | \$3,237,128 |
| Tax Penalty and Interest | 60,655 | - | 60,655 |
| Other Taxes | 10,115 | - | 10,115 |
| Investment Income | 8,260 | - | 8,260 |
| Intergovernmental Grant Income | 46,601 | - | 46,601 |
| Intergovernmental Revenues | 443,238 | - | 443,238 |
| Other Revenues and Receipts | 13,902 | - | 13,902 |
| TOTAL REVENUES | 3,819,899 | - | 3,819,899 |
| EXPENDITURES: | | | |
| General Administration | | | |
| Personnel Costs | 280,301 | - | 280,301 |
| Pension Plan Contributions | 380,198 | - | 380,198 |
| Supplies | 10,404 | - | 10,404 |
| Repairs and Maintenance | 7,681 | - | 7,681 |
| Professional Fees | 44,758 | - | 44,758 |
| Utilities | 24,606 | - | 24,606 |
| Contract and Outside Services | 119,626 | - | 119,626 |
| Sundry | 16,290 | - | 16,290 |
| Capital Expenditures | - | - | - |
| Total General Administration | 883,864 | - | 883,864 |
| Drainage | | | |
| Personnel Costs | 1,557,330 | - | 1,557,330 |
| Supplies | 317,638 | - | 317,638 |
| Repairs and Maintenance | 168,616 | - | 168,616 |
| Professional Fees | - | - | - |
| Contract and Outside Services | 27,812 | - | 27,812 |
| Capital Expenditures | 67,067 | - | 67,067 |
| Total Drainage | 2,138,463 | - | 2,138,463 |
| Debt Service | | | |
| Principal | 325,877 | - | 325,877 |
| Interest | 31,885 | - | 31,885 |
| Total Debt Service | 357,762 | - | 357,762 |
| TOTAL EXPENDITURES | 3,380,089 | - | 3,380,089 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 439,810 | - | 439,810 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers from (to) Other Funds | (1,064,300) | - | (1,064,300) |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,064,300) | - | (1,064,300) |
| NET CHANGE IN FUND BALANCES | (624,490) | - | (624,490) |
| FUND BALANCES, BEGINNING OF YEAR | 4,591,704 | - | 4,591,704 |
| FUND BALANCES, END OF YEAR | \$3,967,214 | - | \$3,967,214 |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | |
|--|--------------------|
| NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS | \$(624,490) |
| Amounts reported for governmental activities in the Statement of Activities (SOA) are different because: | |
| Capital outlays are not reported as expenses in the SOA. | 67,067 |
| Contributions of capital assets are not reported in the funds as a current financial resource but are reflected in the SOA. | 2,774,314 |
| The depreciation of capital assets used in the governmental activities is not reported in the funds. | (727,718) |
| Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the SNP. | 325,877 |
| Payables for compensated absences which were not due in the current period are not reported in the funds. This is the change in these amounts this year. | (7,986) |
| Certain property taxes are deferred in the funds. This is the change in these amounts this year. | (6,505) |
| Change in net pension obligation and deferred inflows and outflows related to pensions are not reported as expenses in the SOA. | <u>42,228</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$1,842,787</u> |

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

| | <u>Business-Type Activities- Enterprise Funds Water and Wastewater</u> |
|--|--|
| <u>ASSETS</u> | |
| CURRENT ASSETS: | |
| Cash and Investments | \$666,827 |
| Accounts Receivable, Net | 447,800 |
| Due from Other Governments | 628 |
| Due from Other Funds | 44,372 |
| Inventory | 115,019 |
| Total Unrestricted Current Assets | <u>1,274,646</u> |
| Restricted Assets: | |
| Cash and Investments | 1,885,708 |
| TOTAL CURRENT ASSETS | <u>3,160,354</u> |
| CAPITAL ASSETS: | |
| Property, Plant and Equipment | 48,045,968 |
| Less: Allowance For Depreciation | <u>(20,303,671)</u> |
| PROPERTY, PLANT AND EQUIPMENT, NET | <u>27,742,297</u> |
| TOTAL ASSETS | <u>30,902,651</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| | <u>-</u> |
| <u>LIABILITIES</u> | |
| CURRENT LIABILITIES: | |
| Accounts Payable | 281,849 |
| Due to Other Governments | 22,930 |
| Capital Leases Payable – Current | 13,609 |
| Payable from Restricted Assets: | |
| Accrued Interest Payable | 36,153 |
| Deposits | 698,296 |
| Bonds Payable - Current | 650,000 |
| TOTAL CURRENT LIABILITIES | <u>1,702,837</u> |
| LONG-TERM LIABILITIES: | |
| Capital Leases Payable, Net of Current Portion | 7,485 |
| Bonds Payable, Net of Current Portion | 7,505,000 |
| Unamortized Bond Premium | 431,643 |
| TOTAL LONG-TERM LIABILITIES | <u>7,944,128</u> |
| TOTAL LIABILITIES | <u>9,646,965</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| | <u>-</u> |
| <u>NET POSITION</u> | |
| Net Investment in Capital Assets | 19,134,560 |
| Restricted for Debt Service | 1,151,259 |
| Unrestricted | 969,867 |
| TOTAL NET POSITION | <u>\$21,255,686</u> |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2018

| | <u>Business-Type Activities – Enterprise Funds</u> Water and Wastewater |
|---|---|
| <u>OPERATING REVENUES:</u> | |
| Charges for Services, Net | \$4,830,666 |
| Investment Income | 3,517 |
| Other Income | 11,907 |
| TOTAL OPERATING REVENUES | <u>4,846,090</u> |
| <u>OPERATING EXPENSES:</u> | |
| Personnel Costs | 1,889,429 |
| Supplies | 677,881 |
| Repairs and Maintenance | 45,763 |
| Maintenance of Plants and Buildings | 71,033 |
| Professional Fees | 58,474 |
| Utilities | 223,514 |
| Contract and Outside Services | 485,523 |
| Sundry | 19,890 |
| TOTAL OPERATING EXPENSES | <u>3,471,507</u> |
| OPERATING INCOME BEFORE DEPRECIATION | 1,374,583 |
| Less: Depreciation | (1,329,615) |
| NET OPERATING INCOME | <u>44,968</u> |
| <u>NONOPERATING REVENUES (EXPENSES):</u> | |
| Investment Income - Debt Service | 5,265 |
| Interest Expense and Fiscal Charges | (260,355) |
| Grant Revenue – Disaster Recovery | 38,712 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>(216,378)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (171,410) |
| TRANSFERS FROM OTHER FUNDS | <u>1,064,300</u> |
| CHANGES IN NET POSITION | 892,890 |
| NET POSITION, BEGINNING OF YEAR | <u>20,362,796</u> |
| NET POSITION, END OF YEAR | <u>\$21,255,686</u> |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2018

Business-Type Activities – Enterprise Funds

| | <u>Water & Wastewater</u> |
|---|-----------------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | |
| Cash Received from Customers | \$4,876,107 |
| Cash Paid to Suppliers for Goods and Services | (1,656,421) |
| Cash Paid to Employees for Services | (1,889,429) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>1,330,257</u> |
| <u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u> | |
| Grant Revenue – Disaster Recovery | 38,712 |
| Transfers from Other Funds | 1,064,300 |
| NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES | <u>1,103,012</u> |
| <u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u> | |
| Acquisition/Construction of Capital Assets | (1,448,540) |
| Principal Payments on Debt | (630,000) |
| Payments on Capital Lease Obligations | (15,988) |
| Interest and Fiscal Charges Related to Debt | (309,375) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(2,403,903)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | |
| Investment Income | 8,782 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>8,782</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 38,148 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,514,387</u> |
| <u>CASH AND CASH EQUIVALENTS, END OF YEAR</u> | <u><u>\$2,552,535</u></u> |

Reconciliation of Net Operating Income to Net Cash Provided (Used) by Operating Activities:

| | |
|--|---------------------------|
| Net Operating Income | \$44,968 |
| Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities - | |
| Depreciation | 1,329,615 |
| Investment Income | (3,517) |
| (Increase) Decrease in: | |
| Accounts Receivable | 22,395 |
| Inventory | (115,019) |
| Increase (Decrease) in: | |
| Accounts Payable | 51,060 |
| Due to Other Governments | 6,450 |
| Due from Other Funds | (28,741) |
| Service Deposits | 23,046 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u><u>\$1,330,257</u></u> |

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Trinity Bay Conservation District (the District) was organized in 1949, under the provision of Section 59, Article XVI of the Constitution of the State of Texas. The District is located within Chambers and Jefferson Counties. The District operates under a Board of Directors comprised of five members elected by the citizens residing within the District. It is the Board of Directors' responsibility to appoint a general manager who is the chief administrator and executive officer of the District.

The District's major operations include maintenance of drainage facilities within the District. Additionally, the District operates an enterprise fund for the provision of water and wastewater services. The District operates under Chapter 49 of the Texas Water Code.

The following is a summary of the District's more significant accounting policies:

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying financial statements include the accounts of all District operations. The measure for including organizations as component units of the District was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criteria for inclusion is the degree of oversight responsibility maintained by the Board of Directors. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, no potential component unit has been excluded from these statements. There are no component units included in the District's reporting entity.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-Wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed through user charges.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the District.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements: Fund financial statements report detailed information about the District. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and proprietary fund financial statements is on the major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental Fund Types: All governmental funds are reported using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes receivable, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes are recorded and deferred until they become available. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. The funds included in this category are as follows:

General Fund – This fund is the general operating fund of the District and is used to account for resources and functions traditionally associated with governments that are not required to be accounted for in another fund.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes. The District did not have any special revenue funds as of September 30, 2018.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, all general obligation indebtedness not serviced by the proprietary funds. The District did not have any debt service funds as of September 30, 2018.

Capital Projects Funds – These funds are used to account for all major capital expenditures not financed by the proprietary or trust funds. The District has a capital project fund for drainage construction projects funded primarily by capital grants.

Proprietary Fund Types: All proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the District's proprietary fund include the personnel costs, costs of operating the systems, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District's fund included in this category is the Water and Wastewater Fund. The Water and Wastewater fund is used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the cost of providing certain goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges for those services.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental entities, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Budgets and Budgetary Accounting

Prior to September 30, of each year, the District adopts a budget for the fiscal year beginning October 1, of that year. The budget, which includes anticipated revenues and expenditures, is adopted for the Governmental Fund Types and all Proprietary Funds. The budget is amended by the District as needed throughout the year.

E. Interfund Transactions and Balances

Interfund transactions intended to reflect the transfer of resources between funds are reflected as transfers. Certain transactions representing short-term liabilities between funds are recorded as receivables and payables in the respective funds at the time the transactions are reported on the fund basis statements.

F. Cash and Time Deposits

Cash in excess of current operating requirements is invested in time deposits in order to earn a higher rate of interest. The District generally does not invest in any other securities. For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of one year or less when purchased to be cash equivalents. Cash deposits and certificates of deposit are reported at their carrying amount, which reasonably estimates fair value.

G. Accounts Receivable

Accounts receivable from water and wastewater services are presented net of the allowance for doubtful accounts of \$406,268 at September 30, 2018. The increase in the allowance of \$23,083 has been netted against charges for services revenue.

H. Restricted Assets

The Water and Wastewater Enterprise Fund, based on certain bond covenants, is required to establish and maintain resources (cash and temporary investments) that can be used to service outstanding debt. Additionally, funds collected for construction and meter deposits are segregated and restricted for future disposition. Restricted assets at September 30, 2018, consisted of the following:

| | Capital Projects Fund | Water & Wastewater Fund |
|-----------------------|-----------------------------|-------------------------------|
| Debt Service Accounts | - | \$1,187,412 |
| Construction Accounts | \$118,478 | - |
| Service Deposits | - | 698,296 |
| | \$118,478 | \$1,885,708 |

I. Inventory

Inventories of materials and supplies are maintained for the drainage operations of the general fund and for the proprietary funds. The inventory in each fund is recorded at cost (first-in, first-out basis), which is lower than market.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Donated capital assets are capitalized at estimated fair market value on the date donated. Infrastructure such as drainage systems are capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. The minimum capitalization threshold is any individual item with a total cost greater than \$2,000.

Major outlays for capital asset construction and improvements are capitalized as construction-in-progress as projects are constructed. Upon completion, the projects are transferred to depreciable assets.

Capital assets are being depreciated using the straight-line method and depreciation expense for governmental assets is specifically identified by function with general assets being allocated based on a percentage of governmental functional expenditures over total governmental expenditures. Depreciation expense for the proprietary funds is recorded in each respective proprietary fund. The following estimated useful lives are used for calculating depreciation expense:

| | <u>Depreciable Life</u> |
|-------------------------|-------------------------|
| Infrastructure | 15-40 |
| Building & Improvements | 15-40 |
| Systems | 15-40 |
| Vehicles | 5-7 |
| Machinery & Equipment | 5-10 |
| Office Equipment | 3-5 |

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes 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/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Fund Balances

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board of Directors through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the Board of Directors. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the District’s policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

N. Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None Reported | Not applicable |

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks that address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None | N/A | |

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

The District’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District’s agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

A. Cash Deposits

At September 30, 2018, the carrying amount of the District’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$6,156,842 and the bank balance was \$6,322,870. The District’s cash deposits at September 30, 2018, and during the year ended September 30, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District’s agent bank in the District’s name.

B. Investments

The District is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments that are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and commercial paper.

The District’s investments at September 30, 2018, are shown below:

| Description | Carrying Amount | Market Value |
|---------------------------|--------------------|--------------|
| Certificates of Deposit – | \$5,475,169 | \$5,475,169 |

C. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures:

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2018, the District’s investments were covered by collateral with a fair value equal to the investment. At year-end, the District was not significantly exposed to credit risk. At September 30, 2018, all certificates of deposit held were fully insured by the FDIC, or by pledged collateral held by the District’s agent bank in the District’s name.

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

department or agent but not in the District's name. At year-end, the District was not exposed to custodial credit risk.

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the District was not exposed to concentration of credit risk.

4. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to interest rate risk.

5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

NOTE 4 – PROPERTY TAXES

Taxable property within the District is subject to assessment, levy and collection of ad valorem taxes necessary to support the general governmental services provided and to provide for the payment of any unlimited tax and revenue bonds of the Water and Wastewater Enterprise Fund. The Act under which the District was created provided for the levy of an operations and maintenance tax of \$0.25 per \$100 of assessed value. This rate was subsequently amended on May 2, 1957, to \$.50 per \$100 of assessed value. The tax rate for debt service is unlimited. The total tax rate for the fiscal year ended September 30, 2018, was \$0.4087 per \$100 assessed valuation based on the total net assessed value of \$797,163,603.

Taxes are levied on October 1 of each year, and are payable without penalty or interest through the following January 31. The District recognizes property tax revenue when levied to the extent that it results in current receivables. Property taxes are collected and remitted to the District by the Chambers County and Jefferson County Tax Assessor Collectors' offices.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. However, as the District no longer has debt to service with tax collections, all delinquent taxes collected are now allocated to maintenance. Allowances for uncollectible taxes receivable of \$337,795 at September 30, 2018, are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 5 – DUE FROM OTHER GOVERNMENTS

As of September 30, 2018, amounts due from other governments consisted of the following:

| | <u>Amount</u> | <u>Purpose</u> |
|------------------------------------|-------------------------|--------------------------------|
| Due from Chambers County, Texas | \$14,533 | Tax Collection Proceeds |
| Due from Chambers County, Texas | 128,533 | Contract Services – GLO Grants |
| Total General Fund | <u>143,066</u> | |
| Due from Federal Government - FEMA | 309,353 | Disaster Recovery-Construction |
| Total Capital Projects Fund | <u>309,353</u> | |
| Due from Federal Government - FEMA | 628 | Disaster Recovery Grant |
| Total Water & Wastewater Fund | <u>628</u> | |
| Total | <u><u>\$453,047</u></u> | |

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6 – DUE TO/FROM OTHER FUNDS

Interfund receivables/payables are scheduled to be repaid within one year and consisted of the following:

| <u>Due to Fund</u> | <u>Due from Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|-------------------------|----------------------|-----------------|-------------------|
| Water & Wastewater Fund | General Fund | \$44,372 | Short- term loans |
| | | <u>\$44,372</u> | |

NOTE 7– PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended September 30, 2018, was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases and Other</u> | <u>Ending Balances</u> |
|--|---------------------------|--------------------|----------------------------|------------------------|
| <i>Governmental Activities:</i> | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Easements | \$681,333 | - | - | \$681,333 |
| Construction in Progress | - | - | - | - |
| Total Capital Assets Not Being Depreciated | <u>681,333</u> | <u>-</u> | <u>-</u> | <u>681,333</u> |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Office Furniture, Fixtures and Equipment | 153,086 | \$6,000 | - | 159,086 |
| Vehicles | 491,503 | 27,482 | - | 518,985 |
| Machinery and Equipment | 2,790,470 | 33,585 | \$276,480 | 3,100,535 |
| Assets Held Under Capital Lease | 2,039,517 | - | (279,713) | 1,759,804 |
| Infrastructure – Drainage Systems | 9,900,326 | 2,774,314 | - | 12,674,640 |
| Total Capital Assets Being Depreciated | <u>15,374,902</u> | <u>2,841,381</u> | <u>(3,233)</u> | <u>18,213,050</u> |
| Less Accumulated Depreciation for: | | | | |
| Office Furniture, Fixtures and Equipment | 83,014 | 20,703 | - | 103,717 |
| Vehicles | 376,023 | 32,512 | - | 408,535 |
| Machinery and Equipment | 2,425,630 | 108,589 | 276,480 | 2,810,699 |
| Assets Held Under Capital Lease | 932,720 | 324,826 | (279,713) | 977,833 |
| Infrastructure – Drainage Systems | 3,510,478 | 241,088 | - | 3,751,566 |
| Total Accumulated Depreciation | <u>7,327,865</u> | <u>727,718</u> | <u>(3,233)</u> | <u>8,052,350</u> |
| Total Capital Assets Being Depreciated, Net | <u>8,047,037</u> | <u>2,113,663</u> | <u>-</u> | <u>10,160,700</u> |
| Governmental Activities Capital Assets, Net | <u>\$8,728,370</u> | <u>\$2,113,663</u> | <u>\$-</u> | <u>\$10,842,033</u> |

Depreciation was charged to functional expenditures as follows:

| | |
|---------------------------------|------------------|
| <i>Governmental Activities:</i> | |
| General Administration | \$20,703 |
| Drainage | 707,015 |
| Total Depreciation Expense | <u>\$727,718</u> |

During 2018, Chambers County, Texas completed construction on salt water barrier structures that were funded from a Community Development Block Grant to the County. Upon completion, the County contributed those projects to the District. The contribution of \$2.8 million is reflected in governmental activities as a capital contribution and as an addition to drainage system infrastructure in capital assets.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7- PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases and Other</u> | <u>Ending Balances</u> |
|--|-------------------------------|------------------|--------------------------------|----------------------------|
| <i>Business-Type Activities:</i> | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$1,107,127 | - | - | \$1,107,127 |
| Construction in Progress | 96,434 | \$986,944 | - | 1,083,378 |
| Total Capital Assets Not Being Depreciated | <u>1,203,561</u> | <u>986,944</u> | <u>-</u> | <u>2,190,505</u> |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Buildings and Improvements | 3,776,265 | - | - | 3,776,265 |
| Office Furniture, Fixtures and Equipment | 111,937 | 1,415 | - | 113,352 |
| Vehicles | 512,990 | 47,162 | - | 560,152 |
| Machinery and Equipment | 748,371 | 188,522 | - | 936,893 |
| Assets Held Under Capital Lease | 167,143 | - | - | 167,143 |
| Water and Wastewater Systems | 40,077,161 | 224,497 | - | 40,301,658 |
| Total Capital Assets Being Depreciated | <u>45,393,867</u> | <u>461,596</u> | <u>-</u> | <u>45,855,463</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 112,512 | 93,952 | - | 206,464 |
| Office Furniture, Fixtures and Equipment | 49,454 | 8,291 | - | 57,745 |
| Vehicles | 325,869 | 72,331 | - | 398,200 |
| Machinery and Equipment | 573,668 | 80,760 | - | 654,428 |
| Assets Held Under Capital Lease | 128,536 | 9,084 | - | 137,620 |
| Water and Wastewater Systems | 17,784,017 | 1,065,197 | - | 18,849,214 |
| Total Accumulated Depreciation | <u>18,974,056</u> | <u>1,329,615</u> | <u>-</u> | <u>20,303,671</u> |
| Total Capital Assets Being Depreciated, Net | <u>26,419,811</u> | <u>(868,019)</u> | <u>-</u> | <u>25,551,792</u> |
| Business-type Activities Capital Assets, Net | <u>\$27,623,372</u> | <u>\$118,925</u> | <u>-</u> | <u>\$27,742,297</u> |

Depreciation was charged to functional expenditures as follows:

| | |
|----------------------------------|--------------------|
| <i>Business-type Activities:</i> | |
| Water & Wastewater | <u>\$1,329,615</u> |

NOTE 8 – DUE TO OTHER GOVERNMENTS

As of September 30, 2018, amounts due to other governments consisted of the following:

| | <u>Amount</u> | <u>Purpose</u> |
|-------------------------------|-----------------|----------------------------------|
| Due to FEMA | \$15,108 | Grant funding unspent at yearend |
| Total General Fund | <u>15,108</u> | |
| Due to State of Texas | 16,004 | TCEQ fees |
| Due to FEMA | 6,926 | Grant funding unspent at yearend |
| Total Water & Wastewater Fund | <u>22,930</u> | |
| Total | <u>\$38,038</u> | |

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2018, was as follows:

| | Balance September 30, 2017 | Additions | Retirements | Balance September 30, 2018 | Amount Due Within One Year |
|---|----------------------------------|------------------|--------------------|----------------------------------|----------------------------------|
| GOVERNMENTAL ACTIVITIES: | | | | | |
| Capital Leases | \$1,070,971 | - | \$(325,877) | \$745,094 | \$324,224 |
| Other Liabilities: | | | | | |
| Compensated Absences | 196,000 | \$150,037 | (142,051) | 203,986 | 203,986 |
| Total Governmental Activities Long-term Liabilities | <u>\$1,266,971</u> | <u>\$150,037</u> | <u>\$(467,928)</u> | <u>\$949,080</u> | <u>\$528,210</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | | |
| Bonds, Notes and Leases: | | | | | |
| Revenue Refunding Bonds, Series 2012 | \$5,975,000 | - | \$(580,000) | \$5,395,000 | \$600,000 |
| Revenue Bonds, Series 2014 | 2,810,000 | - | (50,000) | 2,760,000 | 50,000 |
| Capital Leases | 37,082 | - | (15,998) | 21,094 | 13,609 |
| Bonds, Notes and Leases | 8,822,082 | - | (645,988) | 8,176,094 | 663,609 |
| Bond Premiums Received | 478,300 | - | (46,657) | 431,643 | - |
| Total Bonds, Notes and Leases | <u>9,300,382</u> | <u>-</u> | <u>(692,645)</u> | <u>8,607,737</u> | <u>663,609</u> |
| Total Business-type Activities Long-term Liabilities | <u>\$9,300,382</u> | <u>-</u> | <u>\$(692,645)</u> | <u>\$8,607,737</u> | <u>\$663,609</u> |

Revenue Refunding Bonds, Series 2012

During fiscal year 2012, the District issued Revenue Refunding bonds, Series 2012, with a face value of \$9,220,000, for the purpose of refunding all of the District's then outstanding bonds (Series 1998A, Series 1998B and Series 2002). The interest rates on the Series 2012 Bonds range from 2.0% to 3.5%. The bonds are secured and payable by a lien on the net revenues from the operations of the District's waterworks and sanitary sewer system, as defined in the bond order. The District is required to deposit monthly into an interest and sinking fund, an amount as will be sufficient to pay the principal and interest on the next payment date.

Additionally, the District is required to maintain a reserve fund equal to the largest year of future debt service. The reserve was fully funded at the time of issuance of the bonds. The reserve is to be used to pay the principal and interest on the bonds at any time when there is not sufficient money available in the interest and sinking fund for such purpose. If the reserve is reduced below the stated funding level, monthly deposits are to be made until the reserve fund has been restored.

There are a number of limitations, restrictions, and provisions contained in the bond indentures. The District is in compliance with all significant limitations, restrictions and provisions.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9 – LONG-TERM LIABILITIES (CONTINUED)

Revenue Bonds, Series 2014

During fiscal year 2015, the District issued Revenue bonds, Series 2014, with a face value of \$2,910,000, for the purpose of constructing the District’s office facilities. The interest rates on the Series 2014 Bonds range from 3.0% to 4.0%. The bonds are secured and payable by a lien on the net revenues from the operations of the District’s waterworks and sanitary sewer system, as defined in the bond order. The District is required to deposit monthly into an interest and sinking fund, an amount as will be sufficient to pay the principal and interest on the next payment date.

Additionally, the District is required to maintain a reserve fund equal to the largest year of total future debt service with consideration of the 2012 Bonds reserve funds. The reserve was fully funded at the time of issuance of the bonds. The reserve is to be used to pay the principal and interest on the bonds at any time when there is not sufficient money available in the interest and sinking fund for such purpose. If the reserve is reduced below the stated funding level, monthly deposits are to be made until the reserve fund has been restored.

There are a number of limitations, restrictions, and provisions contained in the bond indentures. The District is in compliance with all significant limitations, restrictions and provisions.

The following is a schedule of annual requirements necessary to amortize all bonded indebtedness outstanding of the Water and Wastewater Enterprise Fund as of September 30, 2018, including total principal of \$8,155,000 and total interest of \$2,030,375.

| Year ending September 30 | Principal | Interest | Total |
|-----------------------------|--------------------|--------------------|---------------------|
| 2019 | \$650,000 | \$289,225 | \$939,225 |
| 2020 | 690,000 | 269,725 | 959,725 |
| 2021 | 715,000 | 245,950 | 960,950 |
| 2022 | 760,000 | 221,300 | 981,300 |
| 2023 | 785,000 | 195,200 | 980,200 |
| 2024-2028 | 2,955,000 | 577,175 | 3,532,175 |
| 2029-2033 | 1,305,000 | 220,000 | 1,525,000 |
| 2034 | 295,000 | 11,800 | 306,800 |
| Totals | <u>\$8,155,000</u> | <u>\$2,030,375</u> | <u>\$10,185,375</u> |

The amount available in the Water and Sewer Enterprise Fund debt service accounts as of September 30, 2018, is \$1,187,412 to service the above bonded indebtedness. This consists of \$205,112 in interest and sinking funds and \$982,300 in reserve funds.

Capital Leases

In prior years, the District entered into leases for machinery and equipment which meet the criteria for capitalization. The leases include a governmental clause whereby the leases may be terminated at the end of (or with appropriate notice during) budget periods if such funding is not budgeted and District funds are not appropriated. However, the District considers the leases to be capital leases and have accounted for them as such in the financial statements.

Capital assets held under capital leases at September 30, 2018, amounted to \$1,926,947 and are included in capital assets. The related present values of the remaining obligations under the capital leases of \$766,188 are included in long-term liabilities (\$745,094 in governmental-type activities and \$21,094 in business-type activities.)

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9 – LONG-TERM LIABILITIES (CONTINUED)

The future minimum obligations under capital leases at September 30, 2018, are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|------------------|-----------------|------------------|
| 2019 | \$337,338 | \$18,460 | \$355,798 |
| 2020 | 259,594 | 9,480 | 269,074 |
| 2021 | 134,804 | 3,509 | 138,313 |
| 2022 | 34,452 | 127 | 34,579 |
| Totals | <u>\$766,188</u> | <u>\$31,576</u> | <u>\$797,764</u> |

Compensated Absences Payable

District employees are entitled to certain compensated absences based on the length of their employment. Sick leave does not vest or accumulate and is recorded as an expenditure when paid. No employee will be paid for unused sick leave upon separation of employment, unless specified by contract. Vacation time may be carried from one year to the next year. Employees will be paid for unused vacation time up to one and one-half times their annual vacation days upon separation of employment. Unused accrued vacation in excess of these days will not be reimbursed. The liability for accumulated vacation benefits of \$203,986 is reflected on the Statement of Net Position as a long-term liability.

NOTE 10 – PENSION PLAN

Plan Description

The District provides retirement, disability, and survivor benefits for all of its full-time and part-time non-temporary employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple employer public employee retirement system consisting of separate nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available at www.tcdrs.org.

Benefits Provided

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is accumulated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At December 31, 2017, the following employees were covered by the plan:

| | |
|--|-----------|
| Active employees | 46 |
| Inactive employees or beneficiaries currently receiving benefits | 18 |
| Inactive employees entitled to but not yet receiving benefits | <u>16</u> |
| | <u>80</u> |

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – PENSION PLAN (CONTINUED)

Contributions

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 15.44% for the months of the accounting year in 2018, and 15.44% for the months of the accounting year in 2017. The contribution rate payable by the employee members for calendar year 2017 is the rate of 7% as adopted by the governing body of the employer.

Net Pension Liability

The District's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.75 percent |
| Investment rate of return | 8.00 percent, net of plan investment expense, including inflation |

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016. In addition, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on the MP-2014 Ultimate Scale.

The long term expected rate of return on plan investments was determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 for more details.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – PENSION PLAN (CONTINUED)

| <u>Asset Class</u> | <u>Benchmark</u> | <u>Target Allocation</u> <u>(1)</u> | <u>Geometric Real Rate Of Return</u> <u>(2)</u> |
|---------------------------------------|--|--|--|
| U.S. Equities | Dow Jones U.S. Total Stock Market Index | 11.5% | 4.55% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index (3) | 16.0% | 7.55% |
| Global Equities | MSCI World (net) Index | 1.5% | 4.85% |
| International Equities-Developed Mkts | MSCI World Ex USA (net) Index | 11.0% | 4.55% |
| International Equities –Emerging Mkts | MSCI Emerging Markets (net) Index | 8.0% | 5.55% |
| Investment – Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.0% | 0.75% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 8.0% | 4.12% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.0% | 8.06% |
| Distressed Debt | Cambridge Associates Distressed Securities Index (4) | 2.0% | 6.30% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index +33% S & P Global REIT (net) Index | 2.0% | 4.05% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.0% | 6.00% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (5) | 6.0% | 6.25% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 18.0% | 4.10% |
| Total | | <u>100.0%</u> | |

(1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the total pension liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – PENSION PLAN (CONTINUED)

Changes in the District’s Net Pension Liability

Changes in the District’s net pension liability for the year ended December 31, 2017 were as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|--------------------------------|---------------------------------------|------------------------------------|
| Balances, December 31, 2016 | \$8,561,498 | \$6,834,243 | \$1,727,255 |
| Changes for the Year: | | | |
| Service Cost | 282,338 | - | 282,338 |
| Interest on Total Pension Liability | 705,447 | - | 705,447 |
| Effect of Plan Changes | - | - | - |
| Effect of Economic/Demographic Gains/Losses | 43,379 | - | 43,379 |
| Effect of Assumptions Changes or Inputs | 17,221 | - | 17,221 |
| Refund of Contributions | (2,654) | (2,654) | - |
| Benefit Payments | (271,915) | (271,915) | - |
| Administrative Expenses | - | (5,376) | 5,376 |
| Member Contributions | - | 163,685 | (163,685) |
| Net Investment Income | - | 1,001,585 | (1,001,585) |
| Employer Contributions | - | 361,041 | (361,041) |
| Other Charges | - | 3,301 | (3,301) |
| Net Changes | 773,816 | 1,249,667 | (475,851) |
| Balances, December 31, 2017 | \$9,335,314 | \$8,083,910 | \$1,251,404 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 8.1%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.1%) or 1 percentage point higher (9.1%) than the current rate.

| | 1% Decrease 7.10% | Current Discount Rate 8.10% | 1% Increase 9.10% |
|-------------------------------|----------------------|--------------------------------|----------------------|
| Total Pension Liability | \$10,595,918 | \$9,335,314 | \$8,277,523 |
| Fiduciary Net Position | 8,083,910 | 8,083,910 | 8,083,910 |
| Net Pension Liability/(Asset) | \$2,512,008 | \$1,251,404 | \$193,613 |

Deferred Inflows/Outflows of Resources

As of December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | Deferred Inflows of Resources | Deferred Outflows of Resources |
|--|----------------------------------|-----------------------------------|
| Differences Between Expected and Actual Experience | \$73,595 | \$48,003 |
| Changes in Assumptions | - | 46,603 |
| Net Difference Between Projected and Actual Earnings | 350,527 | 295,403 |
| Contributions Made Subsequent to December 31, 2016 | - | 286,760 |
| Total | \$424,122 | \$676,769 |

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – PENSION PLAN (CONTINUED)

Contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---------------------------------|--------------------------|
| <u>Year ending December 31:</u> | |
| 2018 | \$68,560 |
| 2019 | 51,287 |
| 2020 | (72,237) |
| 2021 | (86,549) |
| 2022 | <u>4,826</u> |
| Total | <u><u>\$(34,113)</u></u> |

NOTE 11– RISK MANAGEMENT AND CONTINGENCIES

The District is exposed to various risks of losses related to torts; theft, damage, or destruction of assets; errors and omission; injuries to employees or others; and natural disasters. The District’s primary risk management activity is to maintain various types of insurance coverage to cover any significant losses that might be incurred.

The District is contingently liable with respect to claims or litigation arising from the ordinary course of operations. The settlement of such claims would require budget appropriations of future revenues. District officials have asserted that they have no significant pending or threatened litigation, or claims against the District that would have a material adverse effect on the financial position of the District.

State funds received during the current year and prior years through various grant programs are subject to audit by the applicable agencies. The District does not anticipate any substantial disallowance of project costs for any of the projects.

NOTE 12 – GRANTS

During prior years, the District completed the construction projects, funded by Federal Emergency Management Agency (FEMA), to replace structures (bridges, gates and weirs) damaged by Hurricane Ike. The District received \$23,116 from FEMA on these projects during 2018. As of September 30, 2018, the District had the following remaining related to these projects:

| | <u>September 30,</u> <u>2017</u> | <u>Current Year</u> <u>Activity</u> | <u>September 30,</u> <u>2018</u> |
|------------------------------|-------------------------------------|--|-------------------------------------|
| Due from FEMA | \$450,947 | \$(23,116) | \$427,831 |
| Advances Received but Unused | <u>(118,478)</u> | - | <u>(118,478)</u> |
| Net Amount Due from FEMA | <u><u>\$332,469</u></u> | <u><u>\$(23,116)</u></u> | <u><u>\$309,353</u></u> |

Additionally during 2018, the District recognized grant funding of \$85,313 from FEMA for Hurricane Harvey disaster recovery projects. As of September 30, 2018, \$22,034 had been advanced to the District but was unused.

REQUIRED SUPPLEMENTARY INFORMATION

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL– GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2018

| | General Fund | | | Variance Favorable (Unfavorable) |
|---|---------------------------|-----------------------------|---------------------------|--|
| | Original Budget | Final Budget | Actual | |
| REVENUES: | | | | |
| Ad Valorem Taxes | \$3,200,000 | \$3,200,000 | \$3,237,128 | \$37,128 |
| Tax Penalty and Interest | 70,000 | 70,000 | 60,655 | (9,345) |
| Other Taxes | 11,000 | 11,000 | 10,115 | (885) |
| Investment Income | 8,000 | 8,000 | 8,260 | 260 |
| Intergovernmental Grant Income | - | - | 46,601 | 46,601 |
| Intergovernmental Revenues | - | - | 443,238 | 443,238 |
| Other Revenues and Receipts | 1,500 | 17,129 | 13,902 | (3,227) |
| TOTAL REVENUES | 3,290,500 | 3,306,129 | 3,819,899 | 513,770 |
| EXPENDITURES: | | | | |
| Personnel Costs, including Benefits | 2,165,500 | 2,204,500 | 2,217,829 | (13,329) |
| Supplies | 273,700 | 418,800 | 328,042 | 90,758 |
| Repairs and Maintenance | 148,300 | 186,600 | 176,297 | 10,303 |
| Maintenance of Plants and Buildings | 500 | 2,050 | - | 2,050 |
| Professional Fees | 96,000 | 43,600 | 44,758 | (1,158) |
| Utilities | 33,000 | 26,000 | 24,606 | 1,394 |
| Contract and Outside Services, including Capital Leases | 568,000 | 563,000 | 505,200 | 57,800 |
| Sundry | 21,200 | 21,200 | 16,290 | 4,910 |
| Capital Expenditures | 105,000 | 111,079 | 67,067 | 44,012 |
| TOTAL EXPENDITURES | 3,411,200 | 3,576,829 | 3,380,089 | 196,740 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers (In) Out | (214,300) | (1,064,300) | (1,064,300) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (214,300) | (1,064,300) | (1,064,300) | - |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES (A) | <u><u>\$(335,000)</u></u> | <u><u>\$(1,335,000)</u></u> | <u><u>(624,490)</u></u> | <u><u>\$710,510</u></u> |
| FUND BALANCES, BEGINNING OF YEAR | | | <u>4,591,704</u> | |
| FUND BALANCES, END OF YEAR | | | <u><u>\$3,967,214</u></u> | |

(A) The District budgeted use of reserves.

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2018

| | Actuarial Valuation Date <u>12/31/2017</u> | Actuarial Valuation Date <u>12/31/2016</u> | Actuarial Valuation Date <u>12/31/2015</u> | Actuarial Valuation Date <u>12/31/2014</u> |
|--|---|---|---|---|
| Total Pension Liability | | | | |
| Service Cost | \$282,338 | \$292,558 | \$239,916 | \$233,778 |
| Interest on Total Pension Liability | 705,447 | 642,780 | 599,247 | 551,401 |
| Effect of Plan Changes | - | - | (56,493) | - |
| Effect of Assumption Changes | 17,221 | - | 56,442 | - |
| Effect of Economic/Demographic (Gains)/Losses | 43,379 | (36,913) | (82,650) | 27,659 |
| Benefit Payments/Refunds of Contributions | <u>(274,569)</u> | <u>(253,170)</u> | <u>(236,857)</u> | <u>(213,843)</u> |
| Net Change in Total Pension Liability | 773,816 | 645,255 | 519,605 | 598,995 |
| Total Pension Liability, Beginning | <u>8,561,498</u> | <u>7,916,243</u> | <u>7,396,638</u> | <u>6,797,643</u> |
| Total Pension Liability, Ending (a) | <u>9,335,314</u> | <u>8,561,498</u> | <u>7,916,243</u> | <u>7,396,638</u> |
| Fiduciary Net Position | | | | |
| Employer Contributions | 361,041 | 335,565 | 324,450 | 305,717 |
| Member Contributions | 163,685 | 152,134 | 147,095 | 138,602 |
| Investment Income Net of Investment Expenses | 1,001,585 | 454,562 | (116,686) | 366,990 |
| Benefit Payments/Refunds of Contributions | (274,569) | (253,170) | (236,857) | (213,843) |
| Administrative Expenses | (5,376) | (4,940) | (4,380) | (4,419) |
| Other | 3,301 | 21,913 | (5,416) | (9,035) |
| Net Change in Fiduciary Net Position | 1,249,667 | 706,064 | 108,206 | 584,012 |
| Fiduciary Net Position, Beginning | <u>6,834,243</u> | <u>6,128,179</u> | <u>6,019,973</u> | <u>5,435,961</u> |
| Fiduciary Net Position, Ending (b) | <u>8,083,910</u> | <u>6,834,243</u> | <u>6,128,179</u> | <u>6,019,973</u> |
| Net Pension Liability/(Asset), Ending = (a) – (b) | <u>\$1,251,404</u> | <u>\$1,727,255</u> | <u>\$1,788,064</u> | <u>\$1,376,665</u> |
| Fiduciary Net Position as a % of Total Pension Liability | 86.59% | 79.83% | 77.41% | 81.39% |
| Pensionable Covered Payroll | \$2,338,352 | \$2,173,347 | \$2,101,363 | \$1,980,030 |
| Net Pension Liability as a % of Covered Payroll | 53.52% | 79.47% | 85.09% | 69.53% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2018

| <u>Actuarial Year</u> <u>Ending December 31</u> | <u>Actuarially Determined</u> <u>Contribution</u> | <u>Actual</u> <u>Employer</u> <u>Contribution</u> | <u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u> | <u>Pensionable</u> <u>Covered</u> <u>Payroll (2)</u> | <u>Actual</u> <u>Contribution</u> <u>as a % of</u> <u>Covered</u> <u>Payroll</u> |
|--|--|---|---|--|--|
| 2008 | 170,798 | 170,798 | 0 | 1,645,450 | 10.4% |
| 2009 | 200,890 | 200,890 | 0 | 1,622,698 | 12.4% |
| 2010 | 176,508 | 176,508 | 0 | 1,511,201 | 11.7% |
| 2011 | 186,939 | 186,939 | 0 | 1,552,646 | 12.0% |
| 2012 | 240,991 | 240,991 | 0 | 1,769,391 | 13.6% |
| 2013 | 253,091 | 253,091 | 0 | 1,894,396 | 13.4% |
| 2014 | 305,717 | 305,717 | 0 | 1,980,030 | 15.4% |
| 2015 | 307,219 | 324,450 | (17,231) | 2,101,363 | 15.4% |
| 2016 | 308,398 | 335,565 | (27,167) | 2,173,347 | 15.4% |
| 2017 | 328,772 | 361,041 | (32,269) | 2,338,352 | 15.4% |

- (1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.
(2) Payroll is calculated based on contributions as reported to TCDRS.

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|------------------------------------|--|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 10.1 years (based on contribution rate calculated in 12/31/2017 valuation) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary Increases | Varies by age and service. 4.9% average over career including inflation. |
| Investment Rate of Return | 8.00%, net of investment expenses, including inflation |
| Retirement Age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Changes in Assumptions and Methods | 2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected |
| Changes in Plan Provisions | 2015: No changes in plan provisions. 2016: No changes in plan provisions. 2017: New Annuity Purchase Rates for benefits earned after 2017. |

SUPPLEMENTARY INFORMATION

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) –
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2018

| | Water and Wastewater Fund | | | |
|---|---------------------------|--------------------|------------------|--|
| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
| <u>OPERATING REVENUES</u> | | | | |
| Water Sales (Including Capital Improvements Fees) | \$3,490,600 | \$3,490,600 | \$3,599,032 | \$108,432 |
| Sewer Sales | 640,000 | 640,000 | 680,161 | 40,161 |
| Penalty Income | 23,000 | 23,000 | 22,936 | (64) |
| Reconnect Fees | 42,000 | 42,000 | 46,442 | 4,442 |
| Bulk Water Sales | 45,000 | 45,000 | 12,611 | (32,389) |
| Tapping Fees – Water | 98,000 | 98,000 | 110,250 | 12,250 |
| Tapping Fees – Sewer | 59,000 | 59,000 | 60,070 | 1,070 |
| Line Extensions & Other | 100,000 | 100,000 | 295,619 | 195,619 |
| Interest Income | 3,000 | 3,000 | 3,517 | 517 |
| Miscellaneous Income | 5,000 | 5,000 | 15,452 | 10,452 |
| TOTAL OPERATING REVENUES | 4,505,600 | 4,505,600 | 4,846,090 | 340,490 |
| <u>OPERATING EXPENDITURES</u> | | | | |
| Personnel Costs | 1,826,950 | 1,879,950 | 1,889,429 | (9,479) |
| Supplies | 582,800 | 779,900 | 677,881 | 102,019 |
| Repair and Maintenance | 44,300 | 42,150 | 45,763 | (3,613) |
| Maintenance of Plants and Buildings | 71,000 | 101,000 | 71,033 | 29,967 |
| Professional Fees | 133,000 | 51,300 | 58,474 | (7,174) |
| Utilities | 200,000 | 222,100 | 223,514 | (1,414) |
| Contract and Outside Services | 549,600 | 497,100 | 485,523 | 11,577 |
| Sundry | 28,300 | 24,800 | 19,890 | 4,910 |
| Capital Expenditures and Capital Leases | 533,950 | 1,364,850 | 1,464,528 | (99,678) |
| Contingency | - | - | - | - |
| TOTAL OPERATING EXPENDITURES | 3,969,900 | 4,963,150 | 4,936,035 | 27,115 |
| EXCESS (DEFICIT) OF OPERATING REVENUES OVER EXPENDITURES | 535,700 | (457,550) | (89,945) | 367,605 |
| <u>NON-OPERATING REVENUES (EXPENDITURES)</u> | | | | |
| Interest Income - Debt Service | - | - | 5,265 | 5,265 |
| Grant Revenue – Disaster Recovery | - | - | 38,712 | 38,712 |
| Interest Expense and Fiscal Charges | - | - | (260,355) | (260,355) |
| Bond Principal Payments | - | - | (630,000) | (630,000) |
| Transfer In From Other Funds | 214,300 | 1,064,300 | 1,064,300 | - |
| Debt Service | (950,000) | (948,000) | - | 948,000 |
| TOTAL NON-OPERATING REVENUES (EXPENDITURES) | (735,700) | 116,300 | 217,922 | 101,622 |
| EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES | \$(200,000) | \$(341,250) | \$127,977 | \$469,227 |
| Reconciliation of Actual Amounts on the Budget Basis to Change in Net Assets: | | | | |
| Excess (Deficit) of Revenues over Expenditures | | | \$127,977 | |
| Capital Expenses Capitalized | | | 1,448,540 | |
| Depreciation | | | (1,329,615) | |
| Debt Payments Applied to Debt Balances | | | 645,988 | |
| Change in Net Position | | | <u>\$892,890</u> | |

TEXAS SUPPLEMENTARY INFORMATION

TRINITY BAY CONSERVATION DISTRICT
SERVICES AND RATES
SEPTEMBER 30, 2018

TSI-1

1. Services Provided by the District:

| | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other (specify): _____ | | |

2. Retail Service Providers

a. Retail Rates Based on a 5/8" Meter (or equivalent):

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rates per 1000 Gallons Over Minimum | Usage Levels |
|-------------|-----------------|---------------|---------------|-------------------------------------|---------------------------|
| WATER: | \$ <u>36.00</u> | <u>0</u> | <u>Y</u> | \$ <u>5.50</u> | <u>0</u> to <u>10,000</u> |
| | | | | \$ <u>5.80</u> | <u>10,001</u> to _____ |
| WASTEWATER: | \$ <u>10.00</u> | <u>2,000</u> | <u>Y</u> | \$ <u>2.45</u> | <u>2,001</u> to _____ |
| | | | | \$ _____ | _____ to _____ |
| SURCHARGE: | \$ <u>N/A</u> | _____ | _____ | \$ _____ | _____ to _____ |

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$91.00 Wastewater \$29.60

b. Water and Wastewater Retail Connections:

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFCs |
|------------------|-------------------|--------------------|-------------|--------------|
| Unmetered | | | X 1.0 | |
| ≤ 3/4" | <u>5,541</u> | <u>4,127</u> | X 1.0 | <u>4,127</u> |
| 1" | <u>244</u> | <u>206</u> | X 2.5 | <u>515</u> |
| 1 1/2" | <u>45</u> | <u>44</u> | X 5.0 | <u>220</u> |
| 2" | <u>63</u> | <u>56</u> | X 8.0 | <u>448</u> |
| 3" | <u>12</u> | <u>8</u> | X 15.0 | <u>120</u> |
| 4" | <u>9</u> | <u>8</u> | X 25.0 | <u>200</u> |
| 6" | <u>1</u> | <u>0</u> | X 50.0 | <u>0</u> |
| 8" | | | X 80.0 | |
| 10" | | | X 115.0 | |
| Total Water | <u>5,915</u> | <u>4,449</u> | | <u>5,630</u> |
| Total Wastewater | <u>5,587</u> | <u>4,482</u> | X 1.0 | <u>4,482</u> |

TRINITY BAY CONSERVATION DISTRICT
SERVICES AND RATES
SEPTEMBER 30, 2018

TSI-1

3. Total Water Consumption During The Fiscal Year (rounded to the nearest thousand):

Gallons pumped into the system: 429,279 Water Accountability Ratio:
Gallons billed to customers: 347,518 81 %
(Gallons billed/Gallons pumped)

4. Standby Fees: (authorized only under TWC Section 49.231):

N/A

5. Location of District:

(Submitted in prior years)

TRINITY BAY CONSERVATION DISTRICT
GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2018

TSI-2

| | |
|--|---------------------------|
| Personnel Expenditures (including benefits) | \$2,210,204 |
| Professional Fees: | |
| Auditing | 23,050 |
| Legal | 21,376 |
| Other | 332 |
| | <u>44,758</u> |
| Contracted Services: | |
| Appraisal District | 28,294 |
| Tax Collectors | 7,898 |
| Other | 30,989 |
| | <u>67,181</u> |
| Utilities and Telephone | 24,606 |
| Repairs and Maintenance | 176,297 |
| Administrative Expenditures: | |
| Directors' Fees | 7,625 |
| Office Supplies | 10,404 |
| Insurance | 80,257 |
| Other Administrative Expenditures | 16,290 |
| | <u>114,576</u> |
| Capital Outlay: | |
| Capitalized Assets | 67,067 |
| Debt Service: | |
| Principal: | 325,877 |
| Interest: | 31,885 |
| | <u>357,762</u> |
| Other Expenditures | <u>317,638</u> |
| TOTAL EXPENDITURES | <u>\$3,380,089</u> |

Number of persons employed by the District: 47 Full – Time 0 Part – Time

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER ENTERPRISE FUND
OPERATING EXPENSES
SEPTEMBER 30, 2018

TSI-2

| | |
|--|---------------------------|
| Personnel Expenditures (including benefits) | \$1,881,804 |
| Professional Fees: | |
| Auditing | 23,050 |
| Legal | 21,376 |
| Engineering | 13,336 |
| Other | 712 |
| | <u>58,474</u> |
| Purchased Services For Resale: | |
| Bulk Water and Wastewater Purchases | 177,171 |
| Contracted Services: | |
| Other Contracted Services | 221,944 |
| Utilities and Telephone | 223,514 |
| Plant Operations and Maintenance (including supplies) | 736,547 |
| Repairs and Maintenance | 45,763 |
| Administrative Expenses: | |
| Directors' Fees | 7,625 |
| Office Supplies | 12,367 |
| Insurance | 80,257 |
| | <u>100,249</u> |
| Solid Waste Disposal | 6,151 |
| Depreciation | 1,329,615 |
| Other Expenses | <u>19,890</u> |
| TOTAL OPERATING EXPENSES | <u>\$4,801,122</u> |

Number of persons employed by the District: 47 Full - Time 0 Part - Time

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
TEMPORARY INVESTMENTS
SEPTEMBER 30, 2018

TSI-3

| <u>Funds</u> | <u>Identification or Certificate Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> | <u>Accrued Interest Receivable at End of Year</u> |
|---|---|----------------------|----------------------|-------------------------------|---|
| <u>General Fund</u> | | | | | |
| Certificate of Deposit | 7080281 | .20% | 10/24/18 | <u>\$3,138,773</u> | <u>-</u> |
| Total General Fund | | | | <u>3,138,773</u> | <u>-</u> |
| <u>Water and Sewer Enterprise Fund</u> | | | | | |
| Certificate of Deposit (Meter Deposits) | 7080284 | .20% | 10/24/18 | 774,205 | - |
| Certificate of Deposit (Revenue) | 7080283 | .20% | 10/24/18 | 382,411 | - |
| Certificate of Deposit (2012 I & S) | 7080285 | .20% | 10/24/18 | 167,929 | - |
| Certificate of Deposit (2012 I & S Reserve) | 7080286 | .50% | 10/21/18 | 786,600 | - |
| Certificate of Deposit (2014 Project I&S) | 7080332 | .20% | 10/26/18 | 29,551 | - |
| Certificate of Deposit (2014 Project Reserve) | 7080356 | .20% | 10/19/18 | <u>195,700</u> | <u>-</u> |
| Total Water and Sewer Enterprise Fund | | | | <u>2,336,396</u> | <u>-</u> |
| Total – All Funds | | | | <u>\$5,475,169</u> | <u>-</u> |

The accompanying Independent Auditor's Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2018

TSI-4

| | <u>Maintenance Taxes</u> |
|--|------------------------------|
| Taxes Receivable, Beginning of Year | \$496,325 |
| 2016 Original Tax Levy | 3,262,663 |
| Adjustments | <u>(27,497)</u> |
| Total to be Accounted For | <u>3,731,491</u> |
| Tax Collections: | |
| Current Year | (3,148,513) |
| Prior Years | <u>(88,615)</u> |
| Total Collections | <u>(3,237,128)</u> |
| Taxes Receivable, End of Year | <u>\$494,363</u> |
| Taxes Receivable, By Years | |
| 2017 | \$108,409 |
| 2016 | 51,465 |
| 2015 | 43,710 |
| 2014 | 35,215 |
| 2013 | 31,580 |
| 2012 | 33,315 |
| 2011 | 25,894 |
| 2010 | 26,285 |
| 2009 | 22,310 |
| 2008 | 20,471 |
| 2007 | 18,146 |
| 2006 and Earlier | <u>77,563</u> |
| Taxes Receivable, End of Year | <u>\$494,363</u> |

The accompanying Independent Auditor's
 Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
TAXES LEVIED AND RECEIVABLE (CONTINUED)
SEPTEMBER 30, 2018

TSI-4

| | 2017 | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|
| Property Valuations: | | | | |
| Chambers County | \$791,764,578 | \$736,631,158 | \$863,283,512 | \$901,999,781 |
| Jefferson County | 5,399,025 | 5,315,835 | 5,697,916 | 9,906,849 |
| Total Property Valuations | <u>\$797,163,603</u> | <u>\$741,946,993</u> | <u>\$868,981,428</u> | <u>\$911,906,630</u> |
| Tax Rates per \$100 Valuation: | | | | |
| Maintenance tax rates | \$0.40870 | \$0.40870 | \$0.40870 | \$0.40870 |
| Debt Service tax rates | - | - | - | - |
| Total Tax Rates per \$100 Valuation | <u>\$0.40870</u> | <u>\$0.40870</u> | <u>\$0.40870</u> | <u>\$0.40870</u> |
| Original Tax Levy: | <u>\$3,262,663</u> | <u>\$3,030,411</u> | <u>\$3,549,993</u> | <u>\$3,726,020</u> |
| Percent of Taxes Collected to Taxes Levied | <u>99.2%</u> | <u>102.6%</u> | <u>101.3%</u> | <u>100.2%</u> |

The accompanying Independent Auditor's Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER ENTERPRISE FUND
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
UTILITY SYSTEM
REVENUE REFUNDING BONDS, SERIES 2012
SEPTEMBER 30, 2018

TSI-5

| Due During Fiscal Years Ending | February 15 | August 15 | | Total |
|-----------------------------------|------------------|--------------------|------------------|--------------------|
| | Interest | Principal | Interest | |
| 2019 | \$92,913 | \$600,000 | \$92,912 | \$785,825 |
| 2020 | 83,913 | 615,000 | 83,912 | 782,825 |
| 2021 | 73,150 | 640,000 | 73,150 | 786,300 |
| 2022 | 61,950 | 660,000 | 61,950 | 783,900 |
| 2023 | 50,400 | 685,000 | 50,400 | 785,800 |
| 2024 | 38,413 | 705,000 | 38,413 | 781,826 |
| 2025 | 26,075 | 730,000 | 26,075 | 782,150 |
| 2026 | 13,300 | 760,000 | 13,300 | 786,600 |
| | <u>\$440,114</u> | <u>\$5,395,000</u> | <u>\$440,112</u> | <u>\$6,275,226</u> |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER ENTERPRISE FUND
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
UTILITY SYSTEM
REVENUE BONDS, SERIES 2014
SEPTEMBER 30, 2018

TSI-5

| Due During Fiscal Years Ending | February 15 | August 15 | | Total |
|-----------------------------------|------------------|--------------------|------------------|--------------------|
| | Interest | Principal | Interest | |
| 2019 | \$51,700 | \$50,000 | \$51,700 | \$153,400 |
| 2020 | 50,950 | 75,000 | 50,950 | 176,900 |
| 2021 | 49,825 | 75,000 | 49,825 | 174,650 |
| 2022 | 48,700 | 100,000 | 48,700 | 197,400 |
| 2023 | 47,200 | 100,000 | 47,200 | 194,400 |
| 2024 | 45,700 | 90,000 | 45,700 | 181,400 |
| 2025 | 44,350 | 100,000 | 44,350 | 188,700 |
| 2026 | 42,850 | 110,000 | 42,850 | 195,700 |
| 2027 | 41,200 | 225,000 | 41,200 | 307,400 |
| 2028 | 36,700 | 235,000 | 36,700 | 308,400 |
| 2029 | 32,000 | 240,000 | 32,000 | 304,000 |
| 2030 | 27,200 | 250,000 | 27,200 | 304,400 |
| 2031 | 22,200 | 260,000 | 22,200 | 304,400 |
| 2032 | 17,000 | 270,000 | 17,000 | 304,000 |
| 2033 | 11,600 | 285,000 | 11,600 | 308,200 |
| 2034 | 5,900 | 295,000 | 5,900 | 306,800 |
| | <u>\$575,075</u> | <u>\$2,760,000</u> | <u>\$575,075</u> | <u>\$3,910,150</u> |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER ENTERPRISE FUND
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
UTILITY SYSTEM
TOTAL BONDED INDEBTEDNESS
SEPTEMBER 30, 2018

TSI-5

| Due During Fiscal Years Ending | February 15 | August 15 | | Total |
|-----------------------------------|--------------------|--------------------|--------------------|---------------------|
| | Interest | Principal | Interest | |
| 2019 | \$144,613 | \$650,000 | \$144,612 | \$939,225 |
| 2020 | 134,863 | 690,000 | 134,862 | 959,725 |
| 2021 | 122,975 | 715,000 | 122,975 | 960,950 |
| 2022 | 110,650 | 760,000 | 110,650 | 981,300 |
| 2023 | 97,600 | 785,000 | 97,600 | 980,200 |
| 2024 | 84,113 | 795,000 | 84,113 | 963,226 |
| 2025 | 70,425 | 830,000 | 70,425 | 970,850 |
| 2026 | 56,150 | 870,000 | 56,150 | 982,300 |
| 2027 | 41,200 | 225,000 | 41,200 | 307,400 |
| 2028 | 36,700 | 235,000 | 36,700 | 308,400 |
| 2029 | 32,000 | 240,000 | 32,000 | 304,000 |
| 2030 | 27,200 | 250,000 | 27,200 | 304,400 |
| 2031 | 22,200 | 260,000 | 22,200 | 304,400 |
| 2032 | 17,000 | 270,000 | 17,000 | 304,000 |
| 2033 | 11,600 | 285,000 | 11,600 | 308,200 |
| 2034 | 5,900 | 295,000 | 5,900 | 306,800 |
| | <u>\$1,015,189</u> | <u>\$8,155,000</u> | <u>\$1,015,187</u> | <u>\$10,185,376</u> |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER ENTERPRISE FUND
CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2018

TSI-6

| | Series 2012 | Series 2014 | Totals |
|--|--------------------|--------------------|-------------|
| Interest Rate | 2.00 – 3.50% | 3.00 – 4.00% | |
| Dates Interest Payable | 2/15; 8/15 | 2/15; 8/15 | |
| Maturity Dates | 8/15/12 to 8/15/26 | 8/15/16 to 8/15/34 | |
| Bonds Outstanding at Beginning of Current Year | \$5,975,000 | \$2,810,000 | \$8,785,000 |
| Bonds Sold During the Current Year | - | - | - |
| Retirements During the Current Year | 580,000 | 50,000 | 630,000 |
| Bonds Outstanding at End of Current Year | \$5,395,000 | \$2,760,000 | \$8,155,000 |
| Interest Paid Current Year | \$203,225 | \$104,900 | \$308,125 |

Paying Agent's Name & City:

Series 2012 Bank of New York Mellon, Dallas, Texas

Series 2014 Bank of New York Mellon, Dallas, Texas

| Bond Authority: | Tax Bonds (1) | Other Bonds | Refunding Bonds |
|----------------------------|---------------|--------------|-----------------|
| Amount Authorized by Voter | \$ - | \$ n/a | \$ - |
| Amount Issued | \$ - | \$ 2,910,000 | \$ 9,220,000 |
| Remaining to be Issued | \$ - | \$ - | \$ - |

(1) Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

| | |
|--|--------------------|
| Debt Service Fund Cash and Investments Balances as of September 30, 2018: | <u>\$1,187,412</u> |
| Average Annual Debt Service Payment (Principal & Interest) for Remaining Term of All Debt: | <u>\$ 636,586</u> |

The accompanying Independent Auditor's Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
FIVE YEARS ENDED SEPTEMBER 30, 2018

TSI-7

| | Amounts | | | | | Percent of Fund Total Revenues | | | | |
|--|---------------------|------------------|-------------------|-------------------|-------------------|--------------------------------|---------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2018 | 2017 | 2016 | 2015 | 2014 |
| OPERATING REVENUES: | | | | | | | | | | |
| Taxes | \$3,247,243 | \$3,041,701 | \$3,650,288 | \$3,792,197 | \$2,824,236 | 85.0% | 88.8% | 90.6% | 98.3% | 96.3% |
| Penalty and Interest | 60,655 | 71,603 | 60,481 | 54,955 | 62,696 | 1.6% | 2.1% | 1.5% | 1.4% | 2.1% |
| Interest Income | 8,260 | 8,985 | 6,530 | 6,469 | 5,725 | 0.2% | 0.3% | 0.2% | 0.2% | 0.2% |
| Grant Income | 46,601 | - | - | - | 11,250 | 1.2% | - | - | - | 0.4% |
| Other Revenues | 457,140 | 301,506 | 313,133 | 2,515 | 28,278 | 12.0% | 8.8% | 7.7% | 0.1% | 1.0% |
| TOTAL REVENUES | 3,819,899 | 3,423,795 | 4,030,432 | 3,856,136 | 2,932,185 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| EXPENDITURES: | | | | | | | | | | |
| Personnel Costs | 2,217,829 | 1,953,052 | 1,670,713 | 1,353,127 | 1,412,357 | 58.1% | 57.0% | 41.5% | 35.1% | 48.2% |
| Supplies | 328,042 | 235,973 | 215,654 | 237,493 | 221,077 | 8.6% | 6.9% | 5.3% | 6.2% | 7.5% |
| Repairs and Maintenance | 176,297 | 144,805 | 199,770 | 144,419 | 95,619 | 4.6% | 4.2% | 4.9% | 3.7% | 3.3% |
| Utilities | 24,606 | 30,589 | 22,252 | 19,030 | 18,876 | 0.6% | 0.9% | 0.5% | 0.5% | 0.6% |
| Contract Services and Professional Fees | 192,196 | 205,101 | 172,794 | 217,091 | 201,612 | 5.0% | 6.0% | 4.3% | 5.6% | 6.9% |
| Sundry | 16,290 | 19,010 | 10,367 | 14,493 | 9,241 | 0.4% | 0.6% | 0.3% | 0.4% | 0.3% |
| Capital Expenditures | 67,067 | 826,001 | 245,763 | 1,069,311 | 535,824 | 1.8% | 24.1% | 6.1% | 27.7% | 18.3% |
| Debt Service | 357,762 | 438,341 | 563,719 | 499,384 | 379,202 | 9.4% | 12.8% | 14.0% | 13.0% | 12.9% |
| TOTAL EXPENDITURES | 3,380,089 | 3,852,872 | 3,101,032 | 3,554,348 | 2,873,808 | 88.5% | 112.5% | 76.9% | 92.2% | 98.0% |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 439,810 | (429,077) | 929,400 | 301,788 | 58,377 | 11.5% | -12.5% | 23.1% | 7.8% | 2.0% |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | | |
| Capital Lease Financing Proceeds | - | 638,015 | - | 776,397 | 345,392 | - | 18.6% | - | 20.1% | 11.8% |
| Transfers (To) From Other Funds | (1,064,300) | (200,000) | (228,039) | (448,956) | 90,689 | -27.9% | -5.8% | -5.7% | -11.6% | 3.1% |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ (624,490) | \$ 8,938 | \$ 701,361 | \$ 629,229 | \$ 494,458 | -16.4% | 0.3% | 17.4% | 16.3% | 16.9% |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
FIVE YEARS ENDED SEPTEMBER 30, 2018

TSI-7

| | Amounts | | | | | Percent of Fund Total Revenues | | | | |
|--|-------------------|---------------------|---------------------|-------------------|-------------------|--------------------------------|---------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2018 | 2017 | 2016 | 2015 | 2014 |
| OPERATING REVENUES: | | | | | | | | | | |
| Water Service | \$3,611,643 | \$3,748,788 | \$3,667,663 | \$3,285,229 | \$3,400,885 | 74.5% | 77.5% | 76.6% | 77.4% | 79.9% |
| Sewer Service | 680,161 | 643,134 | 636,936 | 630,962 | 643,972 | 14.0% | 13.3% | 13.3% | 14.9% | 15.1% |
| Penalty and Income | 22,936 | 23,304 | 22,900 | 21,189 | 23,235 | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Tap and Connection Fees | 216,762 | 190,170 | 165,360 | 297,226 | 153,859 | 4.5% | 3.9% | 3.5% | 7.0% | 3.6% |
| Line Extensions and Other Fees | 295,619 | 216,318 | 284,921 | - | - | 6.1% | 4.5% | 6.0% | - | - |
| Investment Income | 3,517 | 3,236 | 3,185 | 3,307 | 3,118 | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Other | 15,452 | 9,271 | 4,659 | 1,000 | 36,148 | 0.3% | 0.2% | 0.1% | - | 0.8% |
| TOTAL OPERATING REVENUES | 4,846,090 | 4,834,221 | 4,785,624 | 4,238,913 | 4,261,217 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| OPERATING EXPENSES: | | | | | | | | | | |
| Personnel Costs | 1,889,429 | 1,734,439 | 1,748,935 | 1,668,621 | 1,571,540 | 39.0% | 35.9% | 36.5% | 39.4% | 36.9% |
| Plant Operations, Maintenance and Supplies | 748,914 | 840,698 | 419,114 | 465,131 | 491,224 | 15.5% | 17.4% | 8.8% | 11.0% | 11.5% |
| Contractual Services and Professional Fees | 543,997 | 593,990 | 430,262 | 582,252 | 581,676 | 11.3% | 12.3% | 9.0% | 13.7% | 13.7% |
| Utilities | 223,514 | 208,160 | 199,343 | 179,996 | 192,203 | 4.6% | 4.3% | 4.2% | 4.2% | 4.5% |
| Repairs and Maintenance | 45,763 | 51,745 | 46,864 | 38,989 | 41,230 | 0.9% | 1.1% | 1.0% | 0.9% | 1.0% |
| Sundry | 19,890 | 25,632 | 21,489 | 24,198 | 23,345 | 0.4% | 0.5% | 0.3% | 0.6% | 0.5% |
| Depreciation | 1,329,615 | 1,302,866 | 1,151,112 | 1,090,449 | 1,015,350 | 27.4% | 27.0% | 24.1% | 25.7% | 23.8% |
| TOTAL OPERATING EXPENSES | 4,801,122 | 4,757,530 | 4,017,119 | 4,049,636 | 3,916,568 | 99.1% | 98.4% | 83.9% | 95.5% | 91.9% |
| OPERATING INCOME (LOSS) | 44,968 | 76,691 | 768,505 | 189,277 | 344,649 | 0.9% | 1.6% | 16.1% | 4.5% | 8.1% |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | | | | |
| Gain (Loss) on Disposition of Assets | - | 41,213 | (51,748) | - | 5,498 | - | 0.9% | -1.1% | - | 0.1% |
| Disaster Recovery, Net | 38,712 | - | 33,207 | - | (4,922) | 0.8% | - | 0.7% | - | -0.1% |
| Interest Income-Debt Service and Construction | 5,265 | 5,218 | 5,241 | 5,390 | 5,194 | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Interest Expense and Fiscal Charges | (260,355) | (278,862) | (292,193) | (279,090) | (212,491) | -5.4% | -5.8% | -6.1% | -6.6% | -5.0% |
| Bond Issue Costs and Miscellaneous | - | - | - | (167,813) | - | - | - | - | -4.0% | - |
| TOTAL NON-OPERATING REVENUES, NET | (216,378) | (232,431) | (305,493) | (441,513) | (206,721) | -4.5% | -4.8% | -6.4% | -10.4% | -4.9% |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, AND TRANSFERS | | | | | | | | | | |
| | (171,410) | (155,740) | 463,012 | (252,236) | 137,928 | -3.6% | -3.2% | 9.7% | -6.0% | 3.2% |
| CAPITAL CONTRIBUTIONS FROM GRANTS | - | 1,287,350 | - | - | 72,437 | - | 26.6% | - | - | 1.7% |
| TRANSFERS (TO) FROM OTHER FUNDS | 1,064,300 | 224,409 | 561,909 | 461,800 | - | 22.0% | 4.6% | 11.7% | 10.9% | - |
| CHANGE IN NET POSITION | \$ 892,890 | \$ 1,356,019 | \$ 1,024,921 | \$ 209,564 | \$ 210,365 | 18.4% | 28.1% | 21.4% | 4.9% | 4.9% |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER FUND
COMBINING SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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| | Operations | Debt Service | Total | Adjustments/ Eliminations (Note A) | Combined Total |
|---|-------------------|------------------|-------------------|--|-------------------|
| Operating Revenues | | | | | |
| Charges for Services, net | \$ 4,859,962 | \$ - | \$ 4,859,962 | \$ - | \$ 4,859,962 |
| Investment Income | 3,517 | - | 3,517 | - | 3,517 |
| Other Income | 11,907 | - | 11,907 | - | 11,907 |
| Total Revenues | 4,875,386 | - | 4,875,386 | - | 4,875,386 |
| Operating Expenses | | | | | |
| Personnel Cost | 1,889,429 | - | 1,889,429 | - | 1,889,429 |
| Supplies | 677,881 | - | 677,881 | - | 677,881 |
| Repairs and Maintenance | 45,763 | - | 45,763 | - | 45,763 |
| Maintenance of Plants and Buildings | 71,033 | - | 71,033 | - | 71,033 |
| Professional Fees | 58,474 | - | 58,474 | - | 58,474 |
| Utilities | 223,514 | - | 223,514 | - | 223,514 |
| Contract and Outside Services | 485,523 | - | 485,523 | - | 485,523 |
| Sundry | 19,890 | - | 19,890 | - | 19,890 |
| Depreciation | 1,329,615 | - | 1,329,615 | - | 1,329,615 |
| Total Operating Expenses | 4,801,122 | - | 4,801,122 | - | 4,801,122 |
| Operating Income (Loss) | 74,264 | - | 74,264 | - | 74,264 |
| Non-Operating Revenues (Expenses) | | | | | |
| Disaster Recovery Grant Revenue | 9,416 | - | 9,416 | - | 9,416 |
| Interest Income, Debt Service and Constr. | - | 5,265 | 5,265 | - | 5,265 |
| Interest Expense, Debt | - | (259,105) | (259,105) | - | (259,105) |
| Administration Fees | - | (1,250) | (1,250) | - | (1,250) |
| Bond Principal Payments | - | (630,000) | (630,000) | 630,000 | - |
| Total Non-Operating | 9,416 | (885,090) | (875,674) | 630,000 | (245,674) |
| Transfers in (out) | 116,300 | 948,000 | 1,064,300 | - | 1,064,300 |
| Change in Net Position | \$ 199,980 | \$ 62,910 | \$ 262,890 | \$ 630,000 | \$ 892,890 |

Note A - The adjustments reflected on the above schedule are necessary to present the combined total on a GAAP basis. The schedule indicates principal payments in order to present the activity of the debt service accounts.

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
WATER AND WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
DEBT SERVICE ACCOUNTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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| | 2012 REVENUE REFUNDING BONDS | 2014 REVENUE BONDS | TOTAL DEBT SERVICE ACCOUNTS |
|---|---------------------------------------|--------------------------|-----------------------------------|
| REVENUES: | | | |
| Interest Received | \$4,746 | \$519 | \$5,265 |
| Transfers From Other Funds | 792,000 | 156,000 | 948,000 |
| TOTAL REVENUES | 796,746 | 156,519 | 953,265 |
| EXPENDITURES: | | | |
| Bond Principal Paid | 580,000 | 50,000 | 630,000 |
| Bond Interest Paid | 203,225 | 104,900 | 308,125 |
| Paying Agent's Fee | 500 | 750 | 1,250 |
| TOTAL EXPENDITURES | 783,725 | 155,650 | 939,375 |
| EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES | \$13,021 | \$869 | \$13,890 |
| CASH AND INVESTMENTS – BEGINNING OF YEAR | | | |
| Debt Service Accounts | \$158,719 | \$32,503 | \$191,222 |
| Reserve Accounts | 786,600 | 195,700 | 982,300 |
| Total | \$945,319 | \$228,203 | \$1,173,522 |
| CASH AND INVESTMENTS – END OF YEAR | | | |
| Debt Service Accounts | \$171,740 | \$33,372 | \$205,112 |
| Reserve Accounts | 786,600 | 195,700 | 982,300 |
| Total | \$958,340 | \$229,072 | \$1,187,412 |

The accompanying Independent Auditor's
Report should be read with this additional information.

TRINITY BAY CONSERVATION DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2018

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Complete District Mailing Address: P.O. Box 599, Stowell, Texas, 77661
 District Business Telephone Number: (409) 296-3602
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): _____
 Limit on Fees of Office that a Director may receive during a fiscal year: _____
 (Set by Board Resolution – TWC Section 49.060)

| <u>Names:</u> | <u>Term of Office (Elected or Appointed) or Date Hired</u> | <u>Fees 9/30/18</u> | <u>Expense Reimbursements 9/30/18</u> | <u>Title at Year End</u> |
|---|--|-------------------------|---|------------------------------|
| Board Members: | | | | |
| Tommy Gilbert-Pct#1 | 5/2014-11/2018 (Elected) | \$3,200 | \$- | Secretary |
| Michael L. Winzer-Pct#2 | 11/2016-11/2020 (Elected) | \$3,200 | \$- | President |
| Jeffrey Jenkins-Pct#3 | 5/2014-11/2018 (Elected) | \$2,900 | \$- | Member |
| Greggory Turner-Pct#4 | 11/2016-11/2020 (Elected) | \$2,750 | \$- | Vice President |
| Dorothy F. Hamilton-Pct#5 | 11/2016-11/2020 (Elected) | \$3,200 | \$- | Member |
| Key Administrative Personnel: | | | | |
| Jerry Shadden | 3/2011-Present | \$151,954 | \$793 | General Manager |
| Consultants: | | | | |
| Germer Gertz, LLP | 11/2006-Present | \$44,987 | - | Legal Counsel |
| Denise Hutter Chambers County Tax Collector | 7/1982-Present | \$7,738 | - | Tax Collector |
| Swaim, Brents & Assoc. | 9/1997- Present | \$46,100 | - | Auditor |

The accompanying Independent Auditor's
 Report should be read with this additional information.

GOVERNMENT AUDITING STANDARDS SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

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

Board of Directors
Trinity Bay Conservation District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Trinity Bay Conservation District (the District), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2018-001).

Compliance and Other Matters

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

District's Response to Findings

Trinity Bay Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This 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.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
January 4, 2019

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X No

Type of auditor's report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| N/A | N/A |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

A. Financial Statement Findings

MATERIAL WEAKNESS
 2018-001 Grant Documents

Condition: Grant documents were submitted to grant authorities without proper review and without reconciliation of supporting records.

Criteria: Internal controls should be in place that provide reasonable assurance that grant documents are complete and accurate before submission to grant authorities.

Cause: There are no procedures in place to determine that grant documents submitted were complete and accurate. The District relied on grant authorities to find any errors instead of determining grant information was complete and accurate themselves before submission.

Effect: Numerous grant documents had to be corrected and resubmitted. Financial amounts recorded based on those grant documents had to be adjusted. This causes a potential material misstatement of financial statements and risk of loss of funding.

Recommendation: Procedures should be implemented requiring the review and reconciliation of grant documents to the underlying support before submission to grant authorities. That review should be documented with initials and date. Management should not sign any grant document without evidence of proper review.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the recommended procedures are in process of being implemented.

B. Federal Award Findings and Questioned Costs
NONE

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|-------------------------------|-----------------------|--|
| None | None | |

TRINITY BAY CONSERVATION DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2018

MATERIAL WEAKNESS

2018-001 GRANT DOCUMENTS

Recommendation: Procedures should be implemented requiring the review and reconciliation of grant documents to the underlying support before submission to grant authorities. That review should be documented with initials and date. Management should not sign any grant document without evidence of proper review.

Action Taken: The District is implementing procedures whereby all documents to be submitted to grant authorities have documented review and reconciliation before submission or signature. The District has also discussed with employees involved with grants the importance of having a full understanding of the grant so that errors can be minimized.

