

**TRINITY BAY CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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FINANCIAL SECTION

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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, 2016, 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, 2016, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2016, 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 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 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
December 14, 2016

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, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

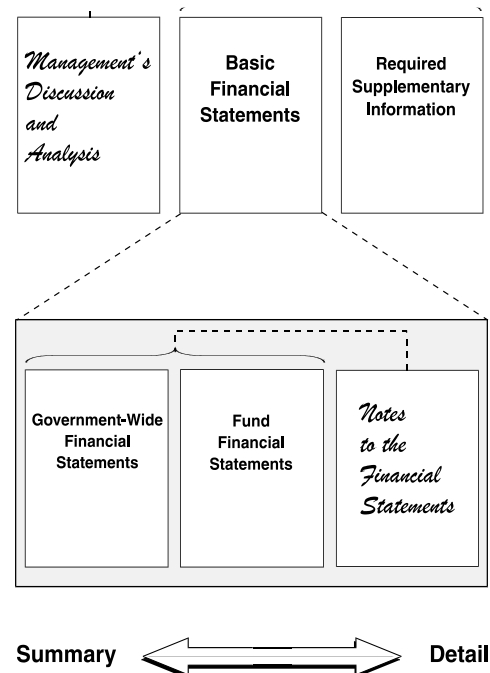
- The District's total combined net position was \$30.5 million at September 30, 2016, compared to \$28.4 million at the end of 2015.
- During the year ended September 30, 2016, the District's total expenses of \$7.1 million were funded by revenues of \$8.8 million. The District also recognized capital grants of \$0.4 million which funded certain construction costs. The District's operating revenues consisted primarily of charges for water and wastewater services of \$4.8 million and property taxes of \$3.7 million. Revenues also included intergovernmental revenues of \$0.3 million. Revenues and expenditures for 2015 were \$10.7 million and \$7.2 million, respectively. Revenues included capital grants of \$2.6 million in 2015.
- Property tax revenues declined \$0.1 million compared to 2015 due to a 4.7% decrease in property valuations compared to the prior year. The District property tax rate was consistent with the prior year.
- During 2016, the District completed construction projects funded primarily by FEMA for the rebuilding of certain bridges and structures. The District recognized \$0.4 million in capital grants related to these projects during 2016.
- The total cost of the District's programs was \$7.1 million compared to \$7.2 million in 2015. The governmental expenses were \$2.8 million. Water and wastewater expenses were \$4.3 million.
- The general fund reported a fund balance of \$4.6 million at September 30, 2016. This reflects an increase of \$0.7 million over prior year.

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 \$30.5 million at September 30, 2016, compared to \$28.4 million at September 30, 2015. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016-2015
Assets:							
Cash and Investments	\$3,708.6	\$3,126.5	\$739.7	\$1,018.5	\$4,448.3	\$4,145.0	7.3%
Accounts Receivable, Net	0.7	1.2	450.6	401.6	451.3	402.8	12.0%
Taxes Receivable, Net	192.6	157.9	-	-	192.6	157.9	22.0%
Due from Other Governments	644.6	481.2	0.6	0.6	645.2	481.8	33.9%
Internal Balances	177.9	5.2	(177.9)	(5.2)	-	-	0%
Restricted Assets							
Cash and Investments	118.5	370.9	1,756.2	3,021.6	1,874.7	3,392.5	-44.7%
Capital Assets, Net	8,738.2	9,378.1	27,068.5	25,414.4	35,806.7	34,792.5	2.9%
Total Assets	13,581.1	13,521.0	29,837.7	29,851.5	43,418.8	43,372.5	0.1%
Deferred Outflows of Resources	868.7	-	-	-	868.7	-	100.0%
Liabilities:							
Accounts Payable	67.5	103.5	146.8	525.1	214.3	628.6	-65.9%
Due to Other Governments	-	-	16.4	14.1	16.4	14.1	16.3%
Accrued Interest Payable	-	-	40.8	42.4	40.8	42.4	-3.8%
Accrued Pension Obligation	1,788.1	1,376.7	-	-	1,788.1	1,376.7	29.9%
Service Deposits	-	-	652.1	628.3	652.1	628.3	3.8%
Long-Term Liabilities:							
Due Within One Year	522.3	701.6	633.1	639.2	1,155.4	1,340.8	-13.8%
Due in More Than One Year	512.2	863.4	9,341.7	10,020.5	9,853.9	10,883.9	-9.5%
Total Liabilities	2,890.1	3,045.2	10,830.9	11,869.6	13,721.0	14,914.8	-8.0%
Deferred Inflows of Resources	70.8	92.8	-	-	70.8	92.8	-23.7%
Net Position:							
Invested in Capital Assets, Net	7,899.7	8,001.0	17,093.6	14,754.6	24,993.3	22,755.6	9.8%
Restricted for Construction	-	-	-	719.6	-	719.6	-100.0%
Restricted for Debt Service	-	-	1,063.3	1,049.4	1,063.3	1,049.4	1.3%
Unrestricted	3,589.2	2,382.0	849.9	1,458.3	4,439.1	3,840.3	15.6%
Total Net Position	\$11,488.9	\$10,383.0	\$19,006.8	\$17,981.9	\$30,495.7	\$28,364.9	7.5%

At September 30, 2016, the District has invested \$25.0 million in capital assets, net of related debt. Approximately \$1.0 million of the District's net position are restricted for debt service. The \$4.4 million of unrestricted net position represents resources available to fund the programs of the District next year. This compares to \$22.8 million invested in capital assets, net of related debt, \$1.0 million restricted for debt service, \$0.7 million restricted for construction, and \$3.8 million of unrestricted net position at September 30, 2015.

Changes in net position. The District's total revenues were \$9.2 million in 2016. A significant portion, 52 percent, of the District's revenue comes from charges for services. (See Figure A-3.) Property taxes and capital grants accounted for 40% and 4%, respectively in 2016. The total cost of all programs and services was \$7.1 million, compared to \$7.2 million in 2015. Normal operating expenses by function included water and wastewater (\$4.0 million), drainage (\$2.4 million), administration (\$0.3 million) and interest on debt (\$0.3 million).

The District's change in net position was \$2.1 million due in part to capital grant funding of \$0.4 million. During 2015, the District had an increase in net position of \$3.4 million including \$2.6 million in capital grant activity. The District also had a reduction in net position due to a change in accounting principle related to pensions of \$1.5 million.

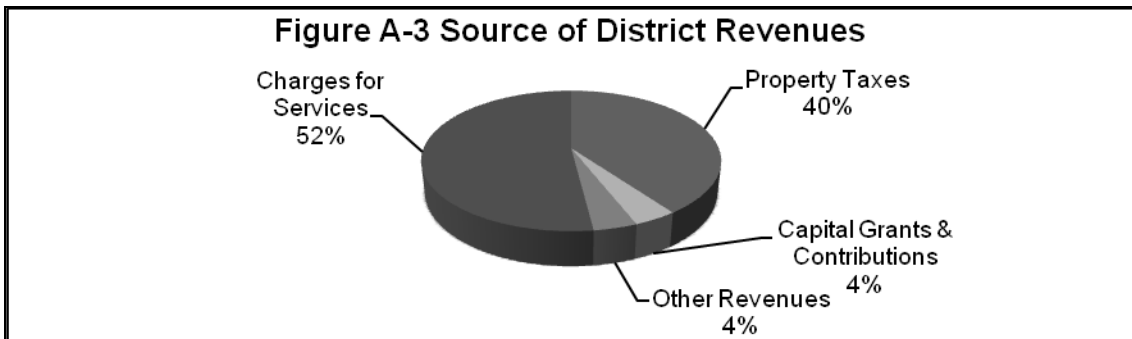


Table A-2
Changes in the District's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2016-2015
	2016	2015	2016	2015	2016	2015	
Program Revenues:							
Charges for Services - Water and Wastewater	-	-	\$4,782.4	\$4,235.6	\$4,782.4	\$4,235.6	12.9%
Operating Grants and Contributions	-	-	33.2	-	33.2	-	100.0%
Capital Grants and Contributions	\$401.1	\$2,580.6	-	-	401.1	2,580.6	-84.5%
General Revenues:							
Property Taxes	3,739.0	3,835.6	-	-	3,739.0	3,835.6	-2.5%
Other Taxes	6.6	18.7	-	-	6.6	18.7	-64.7%
Investment Earnings	6.5	6.5	8.4	8.7	14.9	15.2	-2.0%
Gain (Loss) on Disp. of Assets	-	-	(51.7)	-	(51.7)	-	100.0%
Other Revenues	313.1	2.5	-	-	313.1	2.5	12424.0%
Total Revenues	\$4,466.3	6,443.9	4,772.3	4,244.3	9,238.6	10,688.2	-13.6%
Expenses by Functions/Programs							
General Administration	330.7	500.2	-	-	330.7	500.2	-33.9%
Drainage	2,442.8	2,206.9	-	-	2,442.8	2,206.9	10.7%
Water and Wastewater	-	-	4,017.1	4,049.6	4,017.1	4,049.6	-0.8%
Interest on Long-term Debt	25.0	37.4	292.2	279.1	317.2	316.5	0.2%
Bond Issue Costs	-	-	-	167.8	-	167.8	-100.0%
Total Expenses	2,798.5	2,744.5	4,309.3	4,496.5	7,107.8	7,241.0	-1.8%
Transfers	(561.9)	(461.8)	561.9	461.8	-	-	0.0%
Change in Net Position	1,105.9	3,237.6	1,024.9	209.6	2,130.8	3,447.2	-38.2%
Net Position – Beginning of Cumulative Effect of Change In Accounting Principle (1)	10,383.0	8,621.1	17,981.9	17,772.3	28,364.9	26,393.4	7.5%
	-	(1,475.7)	-	-	-	(1,475.7)	-100.0%
Net Position – End of Year	\$11,488.9	\$10,383.0	\$19,006.8	\$17,981.9	\$30,495.7	\$28,364.9	7.5%

(1) Change in Accounting Principle Related to Pensions

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 \$2.8 million.
- The District received \$0.4 million in federal capital grants for restoration of structures, including bridges, gates and weirs in 2016 compared to \$2.6 million in 2015.
- The amount that our taxpayers paid for these activities was \$2.4 million in property and other taxes in 2016..

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

	Total Cost of Services		% Change 2016-2015	Net Cost of Services		% Change 2016-2015
	2016	2015		2016	2015	
General Administration	\$330.7	\$500.2	-33.9%	\$330.7	\$500.2	-33.9%
Drainage	2,442.8	2,206.9	10.7%	2,041.7	(373.7)	-646.3%
Interest on Long-term Debt	25.0	37.4	-33.2%	25.0	37.4	-33.2%
Total	<u>\$2,798.5</u>	<u>\$2,744.5</u>	2.0%	<u>\$2,397.4</u>	<u>\$163.9</u>	1362.7%

Business-type Activities

Revenues of the District's business-type activities increased \$0.5 million to \$4.7 million compared to fiscal year 2015. The increase was primarily attributable to an increase in charges for services for water including \$0.3 million in line extensions during 2016. Expenses for business type activities declined slightly to \$4.3 million compared to \$4.5 million in 2015.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues for the District's governmental fund types (the General Fund) totaled \$4.0 million in 2016. Revenues in 2016 included property taxes of \$3.7 million compared to \$3.8 million in 2015. The change in property taxes was due to a decrease in property valuations. Total expenditures of \$3.1 million included \$0.2 million in capital expenditures. Of the \$2.9 million remaining governmental expenditures, 51% of the expenditures were for drainage maintenance and improvements, 28% were for general administrative services of the District, and debt service accounted for the remaining 21% of expenditures.

General Fund Budgetary Highlights

The District revised its budget during the year as needed. Actual revenue amounts were 9% higher than budgeted amounts, primarily due to intergovernmental revenues resulting from projects with Chambers County, Texas. Expenditures were \$0.5 million (14%) lower than budgeted due to lower contract services compared to budgeted amounts. The District ended the year with a \$0.7 million positive variance from budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had invested \$60.6 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 \$3.1 million from last year primarily as a result of construction projects.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2016-2015
	2016	2015	2016	2015	2016	2015	
Land and Easements	\$681.3	\$681.3	\$1,107.1	\$1,116.9	\$1,788.4	\$1,798.2	-0.5%
Construction in Progress	-	479.7	39.2	1,953.9	39.2	2,433.6	-98.4%
Buildings and Improvements		-	3,776.3	144.0	3,776.3	144.0	2522.4%
Office Furniture, Fixtures & Equip	147.1	59.7	110.0	46.3	257.1	106.0	142.5%
Vehicles	566.4	534.1	514.2	444.6	1,080.6	978.7	10.4%
Machinery and Equipment	2,915.3	1,675.8	716.6	700.1	3,631.9	2,375.9	52.9%
Assets Held Under Capital Lease	1,568.0	2,704.3	167.1	167.1	1,735.1	2,871.4	-39.6%
Water and Wastewater Systems	-	-	38,419.6	37,499.8	38,419.6	37,499.8	2.5%
Infrastructure-Drainage Systems	9,900.3	9,347.8	-	-	9,900.3	9,347.8	5.9%
Totals at Historical Cost	<u>15,778.4</u>	<u>15,482.7</u>	<u>44,850.1</u>	<u>42,072.7</u>	<u>60,628.5</u>	<u>57,555.4</u>	5.3%
Total Accumulated Depreciation	<u>(7,040.2)</u>	<u>(6,104.6)</u>	<u>(17,781.6)</u>	<u>(16,658.3)</u>	<u>(24,821.8)</u>	<u>(22,762.9)</u>	9.0%
Net Capital Assets	<u>\$8,738.2</u>	<u>\$9,378.1</u>	<u>\$27,068.5</u>	<u>\$25,414.4</u>	<u>\$35,806.7</u>	<u>\$34,792.5</u>	2.9%

Long-Term Debt

At year-end the District had \$10.5 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 2016-2015
	2016	2015	2016	2015	2016	2015	
Capital Lease Obligations	\$838.5	\$1,377.2	\$49.9	\$83.1	\$888.4	\$1,460.3	-39.2%
Compensated Absences Payable	196.0	187.8	-	-	196.0	187.8	4.4%
Bonds Payable, 2014 Series		-	2,860.0	2,910.0	2,860.0	2,910.0	-1.7%
Bonds Payable, 2012 Series		-	6,540.0	7,095.0	6,540.0	7,095.0	-7.8%
Total	<u>1,034.5</u>	<u>1,565.0</u>	<u>9,449.9</u>	<u>10,088.1</u>	<u>10,484.4</u>	<u>11,653.1</u>	-10.0%
Bond Premiums Remaining		-	524.9	571.6	524.9	571.6	-8.2%
Total Long-term Debt	<u>\$1,034.5</u>	<u>\$1,565.0</u>	<u>\$9,974.8</u>	<u>\$10,659.7</u>	<u>\$11,009.3</u>	<u>\$12,224.7</u>	-9.9%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenues for 2017 for the general fund are expected to be lower than 2016 by \$0.6 million (16%) due to lower appraised values. Tax rates for the District are expected to remain the same as 2016.
- General operating fund spending in the 2017 budget is lower than 2016 amounts by \$0.4 million. Budgeted expenditures include a transfer to the water and wastewater fund of \$0.4 million.

These indicators were taken into account when adopting the general fund budget for 2017. The District has added no major new programs or initiatives to the 2017 budget. General fund revenues and expenditures for 2017 are budgeted to be \$3.6 million with \$0.5 million planned to be contributed from prior reserves.

The water and wastewater revenues and expenditures are expected to be \$4.8 million for the 2017 budget which is a decrease of \$0.1 million from 2016. The budget expects use of prior reserves of \$0.2 million.

If these estimates are realized, the District's fund balances for general fund and water and wastewater fund are expected to decline \$0.5 million and \$0.2 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, 2016

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and Investments	\$3,708,658	\$739,675	\$4,448,333
Accounts Receivable, Net	743	450,623	451,366
Taxes Receivable, Net	192,656	-	192,656
Due from Other Governments	644,558	628	645,186
Internal Balances	177,879	(177,879)	-
Restricted Assets:			
Cash and Investments	118,478	1,756,145	1,874,623
Capital Assets, Net	8,738,158	27,068,514	35,806,672
TOTAL ASSETS	13,581,130	29,837,706	43,418,836
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	868,659	-	868,659
<u>LIABILITIES</u>			
Accounts Payable	67,550	146,762	214,312
Due to Other Governments	-	16,389	16,389
Accrued Interest Payable	-	40,822	40,822
Service Deposits	-	652,075	652,075
Net Pension Obligation	1,788,064	-	1,788,064
Long-term Liabilities:			
Due Within One Year	522,271	633,168	1,155,439
Due In More Than One Year	512,178	9,341,713	9,853,891
TOTAL LIABILITIES	2,890,063	10,830,929	13,720,992
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	70,843	-	70,843
<u>NET POSITION</u>			
Net Investment in Capital Assets	7,899,679	17,093,633	24,993,312
Restricted for Debt Service	-	1,063,248	1,063,248
Unrestricted	3,589,204	849,896	4,439,100
TOTAL NET POSITION	\$11,488,883	\$19,006,777	\$30,495,660

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

<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	\$330,710	-	-	-
Drainage	2,442,794	-	-	\$401,086
Interest on Long-term Debt	25,020	-	-	-
Total Governmental Activities	<u>2,798,524</u>	-	-	<u>401,086</u>
Business-Type Activities:				
Water and Wastewater	4,017,119	\$4,782,439	\$33,207	-
Interest on Long-term Debt	292,193	-	-	-
Total Business-Type Activities	<u>4,309,312</u>	<u>4,782,439</u>	<u>33,207</u>	<u>-</u>
Totals	<u>\$7,107,836</u>	<u>\$4,782,439</u>	<u>\$33,207</u>	<u>\$401,086</u>

General Revenues:
Property Taxes Levied For:
 General Purposes
 Other Taxes
Intergovernmental Revenues
Miscellaneous Income
Gain (Loss) on Disposition of Assets
Investment Income
Transfers
Total General Revenues and 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>
\$ (330,710)	-	\$ (330,710)
(2,041,708)	-	(2,041,708)
(25,020)	-	(25,020)
<u>(2,397,438)</u>	<u>-</u>	<u>(2,397,438)</u>
-	\$798,527	798,527
-	(292,193)	(292,193)
-	<u>506,334</u>	<u>506,334</u>
<u>(2,397,438)</u>	<u>506,334</u>	<u>(1,891,104)</u>
3,738,943	-	3,738,943
6,601	-	6,601
272,012	-	272,012
41,121	-	41,121
-	(51,748)	(51,748)
6,530	8,426	14,956
(561,909)	561,909	-
<u>3,503,298</u>	<u>518,587</u>	<u>4,021,885</u>
1,105,860	1,024,921	2,130,781
10,383,023	17,981,856	28,364,879
<u>\$11,488,883</u>	<u>\$19,006,777</u>	<u>\$30,495,660</u>

TRINITY BAY CONSERVATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Investments	\$3,489,931	\$218,727	\$3,708,658
Taxes Receivable	523,112	-	523,112
Less: Allowance for Uncollectible Taxes	(330,456)	-	(330,456)
Other Receivables	743	-	743
Due from Other Governments	214,495	430,063	644,558
Due from Other Funds	945,147	-	945,147
Restricted Assets:			
Cash and Investments	-	118,478	118,478
TOTAL ASSETS	<u>4,842,972</u>	<u>767,268</u>	<u>5,610,240</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$4,842,972</u>	<u>\$767,268</u>	<u>\$5,610,240</u>
<u>LIABILITIES</u>			
Accounts Payable	\$67,550	-	\$67,550
Due to Other Funds	-	\$767,268	767,268
TOTAL LIABILITIES	<u>67,550</u>	<u>767,268</u>	<u>834,818</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenue – Property Taxes	192,656	-	192,656
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>192,656</u>	<u>-</u>	<u>192,656</u>
<u>FUND BALANCES</u>			
Restricted:			
Capital Projects	-	-	-
Unassigned	4,582,766	-	4,582,766
TOTAL FUND BALANCES	<u>4,582,766</u>	<u>-</u>	<u>4,582,766</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$4,842,972</u>	<u>\$767,268</u>	<u>\$5,610,240</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, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$4,582,766
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.	8,738,158
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	192,656
Long-term liabilities for capital leases which were not due in the current period are not reported in the funds.	(838,479)
Payables for compensated absences which were not due in the current period are not reported in the funds.	(195,970)
Liability for pension obligation is not reported in the funds.	(1,788,064)
Deferred inflows and outflows of resources related to pensions is not reported in the funds.	<u>797,816</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$11,488,883</u>

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
Ad Valorem Taxes	\$3,643,687	-	\$3,643,687
Tax Penalty and Interest	60,481	-	60,481
Other Taxes	6,601	-	6,601
Investment Income	6,530	-	6,530
Intergovernmental Grant Income	-	\$401,086	401,086
Intergovernmental Revenues	272,012	-	272,012
Other Revenues and Receipts	41,121	-	41,121
TOTAL REVENUES	<u>4,030,432</u>	<u>401,086</u>	<u>4,431,518</u>
EXPENDITURES:			
General Administration			
Personnel Costs	258,087	-	258,087
Pension Plan Contributions	343,329	-	343,329
Supplies	10,074	-	10,074
Repairs and Maintenance	5,965	-	5,965
Professional Fees	38,053	-	38,053
Utilities	22,252	-	22,252
Contract and Outside Services	101,175	-	101,175
Sundry	10,367	-	10,367
Capital Expenditures	101,515	-	101,515
Total General Administration	<u>890,817</u>	<u>-</u>	<u>890,817</u>
Drainage			
Personnel Costs	1,069,297	-	1,069,297
Supplies	205,580	-	205,580
Repairs and Maintenance	193,805	-	193,805
Contract and Outside Services	33,566	-	33,566
Capital Expenditures	144,248	167,325	311,573
Total Drainage	<u>1,646,496</u>	<u>167,325</u>	<u>1,813,821</u>
Debt Service			
Principal	538,699	-	538,699
Interest	25,020	-	25,020
Total Debt Service	<u>563,719</u>	<u>-</u>	<u>563,719</u>
TOTAL EXPENDITURES	<u>3,101,032</u>	<u>167,325</u>	<u>3,268,357</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	929,400	233,761	1,163,161
OTHER FINANCING SOURCES (USES):			
Transfers from (to) Other Funds	(228,039)	(233,761)	(461,800)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(228,039)</u>	<u>(233,761)</u>	<u>(461,800)</u>
NET CHANGE IN FUND BALANCES	701,361	-	701,361
FUND BALANCES, BEGINNING OF YEAR	<u>3,881,405</u>	<u>-</u>	<u>3,881,405</u>
FUND BALANCES, END OF YEAR	<u>\$4,582,766</u>	<u>\$-</u>	<u>\$4,582,766</u>

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, 2016

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$701,361
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	413,088
Transfers of capital assets from governmental activities to proprietary activities are not reported in the governmental funds.	(100,109)
The depreciation of capital assets used in the governmental activities is not reported in the funds.	(952,966)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the SNP.	538,699
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.	(8,203)
Certain property taxes are deferred in the funds. This is the change in these amounts this year.	34,775
Change in net pension obligation and deferred inflows and outflows related to pensions are not reported as expenses in the SOA.	<u>479,215</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$1,105,860</u>

TRINITY BAY CONSERVATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	<u>Business-Type Activities- Enterprise Funds Water and Wastewater</u>
<u>ASSETS</u>	
CURRENT ASSETS:	
Cash and Investments	\$739,675
Accounts Receivable, Net	450,623
Due from Other Governments	628
Total Unrestricted Current Assets	<u>1,190,926</u>
Restricted Assets:	
Cash and Investments	<u>1,756,145</u>
TOTAL CURRENT ASSETS	<u>2,947,071</u>
CAPITAL ASSETS:	
Property, Plant and Equipment	44,850,094
Less: Allowance For Depreciation	<u>(17,781,580)</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>27,068,514</u>
TOTAL ASSETS	<u>30,015,585</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
	<u>-</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES:	
Accounts Payable	146,762
Due to Other Governments	16,389
Due to Other Funds	177,879
Capital Leases Payable – Current	18,168
Payable from Restricted Assets:	
Accrued Interest Payable	40,822
Deposits	652,075
Bonds Payable - Current	<u>615,000</u>
TOTAL CURRENT LIABILITIES	<u>1,667,095</u>
LONG-TERM LIABILITIES:	
Capital Leases Payable, Net of Current Portion	31,755
Bonds Payable, Net of Current Portion	8,785,000
Unamortized Bond Premium	<u>524,958</u>
TOTAL LONG-TERM LIABILITIES	<u>9,341,713</u>
TOTAL LIABILITIES	<u>11,008,808</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
	<u>-</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	17,093,633
Restricted for Debt Service	1,063,248
Unrestricted	<u>849,896</u>
TOTAL NET POSITION	<u>\$19,006,777</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, 2016

	Business-Type Activities – Enterprise Funds
	<u>Water and Wastewater</u>
<u>OPERATING REVENUES:</u>	
Charges for Services, Net	\$4,782,439
Investment Income	3,185
TOTAL OPERATING REVENUES	<u>4,785,624</u>
<u>OPERATING EXPENSES:</u>	
Personnel Costs	1,748,935
Supplies	376,340
Repairs and Maintenance	46,864
Maintenance of Plants and Buildings	42,774
Professional Fees	64,189
Utilities	199,343
Contract and Outside Services	366,073
Sundry	21,489
TOTAL OPERATING EXPENSES	<u>2,866,007</u>
OPERATING INCOME BEFORE DEPRECIATION	1,919,617
Less: Depreciation	<u>(1,151,112)</u>
NET OPERATING INCOME	<u>768,505</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment Income - Debt Service	5,241
Interest Expense and Fiscal Charges	(292,193)
Disaster Recovery Grant Revenue	33,207
Gain (Loss) on Disposition of Assets	<u>(51,748)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(305,493)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	463,012
CAPITAL CONTRIBUTION FROM GENERAL FUND	100,109
TRANSFERS FROM OTHER FUNDS	<u>461,800</u>
CHANGES IN NET POSITION	1,024,921
NET POSITION, BEGINNING OF YEAR	<u>17,981,856</u>
NET POSITION, END OF YEAR	<u><u>\$19,006,777</u></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, 2016

	<u>Business-Type Activities – Enterprise Funds</u>
	<u>Water & Wastewater</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$4,757,232
Cash Paid to Suppliers for Goods and Services	(1,320,425)
Cash Paid to Employees for Services	(1,748,935)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,687,872</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>	
Grant Proceeds	33,207
Transfers from Other Funds	461,800
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>495,007</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>	
Acquisition/Construction of Capital Assets	(2,812,024)
Proceeds from Sale of Capital Assets	55,100
Principal Payments on Debt	(605,000)
Payments on Capital Lease Obligations	(33,222)
Interest and Fiscal Charges Related to Debt	(340,425)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,735,571)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Investment Income	8,426
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>8,426</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,544,266)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,040,086</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$2,495,820</u>

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

Net Operating Income	\$768,505
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities -	
Depreciation	1,151,112
Investment Income	(3,185)
(Increase) Decrease in:	
Accounts Receivable	(48,984)
Increase (Decrease) in:	
Accounts Payable	(378,371)
Due to Other Governments	2,319
Due to Other Funds	172,700
Service Deposits	23,776
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$1,687,872</u>

The accompanying notes are an integral part of this statement.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016

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, 2016.

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, 2016.

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, 2016

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 \$369,400 at September 30, 2016. The increase in the allowance of \$10,384 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, 2016, consisted of the following:

	Capital Projects Fund	Water & Wastewater Fund
Debt Service Accounts	-	\$1,104,070
Construction Accounts	\$118,478	-
Service Deposits	-	652,075
	<u>\$118,478</u>	<u>\$1,756,145</u>

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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 \$1,000.

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

J. 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.

K. 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.

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.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

L. 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 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, 2016, the carrying amount of the District’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$6,322,956 and the bank balance was \$6,434,418. The District’s cash deposits at September 30, 2016, and during the year ended September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District’s agent bank in the District’s name.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016, are shown below:

Description	Carrying Amount	Market Value
Certificates of Deposit – Anahuac National Bank	\$5,222,535	\$5,222,535

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, 2016, 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, 2016, 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 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.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016, was \$0.4087 per \$100 assessed valuation based on the total net assessed value of \$868,981,428.

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 \$330,456 at September 30, 2016, 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, 2016, amounts due from other governments consisted of the following:

	<u>Amount</u>	<u>Purpose</u>
Due from Chambers County, Texas	\$18,267	Tax Collection Proceeds
Due from Chambers County, Texas	196,228	Contract Services – GLO Grant
Total General Fund	<u>214,495</u>	
Due from Federal Government - FEMA	430,063	Disaster Recovery-Construction
Total Capital Projects Fund	<u>430,063</u>	
Due from Federal Government - FEMA	628	Disaster Recovery Grant
Total Water & Wastewater Fund	<u>628</u>	
Total	<u><u>\$645,186</u></u>	

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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>
General Fund	Water & Wastewater Fund	\$177,879	Short- term loans
		<u>\$177,879</u>	

NOTE 7– PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended September 30, 2016, 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	479,732	\$172,915	\$(652,647)	-
Total Capital Assets Not Being Depreciated	<u>1,161,065</u>	<u>172,915</u>	<u>(652,647)</u>	<u>681,333</u>
<i>Capital Assets Being Depreciated:</i>				
Office Furniture, Fixtures and Equipment	59,726	87,360	-	147,086
Vehicles	534,100	49,641	(17,371)	566,370
Machinery and Equipment	1,675,760	103,172	1,136,328	2,915,260
Assets Held Under Capital Lease	2,704,292	-	(1,136,328)	1,567,964
Infrastructure – Drainage Systems	9,347,787	-	552,539	9,900,326
Total Capital Assets Being Depreciated	<u>14,321,665</u>	<u>240,173</u>	<u>535,168</u>	<u>15,097,006</u>
Less Accumulated Depreciation for:				
Office Furniture, Fixtures and Equipment	50,505	12,420	-	62,925
Vehicles	396,291	64,596	(17,371)	443,516
Machinery and Equipment	1,309,746	109,786	-	1,419,532
Assets Held Under Capital Lease	1,318,089	529,323	-	1,847,412
Infrastructure – Drainage Systems	3,029,955	236,841	-	3,266,796
Total Accumulated Depreciation	<u>6,104,586</u>	<u>952,966</u>	<u>(17,371)</u>	<u>7,040,181</u>
Total Capital Assets Being Depreciated, Net	<u>8,217,079</u>	<u>(712,793)</u>	<u>552,539</u>	<u>8,056,825</u>
Governmental Activities Capital Assets, Net	<u>\$9,378,144</u>	<u>\$(539,878)</u>	<u>\$(100,108)</u>	<u>\$8,738,158</u>

Depreciation was charged to functional expenditures as follows:

<i>Governmental Activities:</i>	
General Administration	\$12,420
Drainage	940,546
Total Depreciation Expense	<u>\$952,966</u>

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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	\$1,116,892	-	\$(9,765)	\$1,107,127
Construction in Progress	1,953,892	\$1,742,430	(3,657,157)	39,165
Total Capital Assets Not Being Depreciated	<u>3,070,784</u>	<u>1,742,430</u>	<u>(3,666,922)</u>	<u>1,146,292</u>
 <i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	144,000	-	3,632,265	3,776,265
Office Furniture, Fixtures and Equipment	46,334	63,683	-	110,017
Vehicles	444,633	69,565	-	514,198
Machinery and Equipment	700,052	16,559	-	716,611
Assets Held Under Capital Lease	167,143	-	-	167,143
Water and Wastewater Systems	37,499,781	919,787	-	38,419,568
Total Capital Assets Being Depreciated	<u>39,001,943</u>	<u>1,069,594</u>	<u>3,632,265</u>	<u>43,703,802</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	43,540	2,937	(27,917)	18,560
Office Furniture, Fixtures and Equipment	38,874	2,044	-	40,918
Vehicles	256,395	59,753	-	316,148
Machinery and Equipment	476,298	65,492	-	541,790
Assets Held Under Capital Lease	84,479	29,795	-	114,274
Water and Wastewater Systems	15,758,799	991,091	-	16,749,890
Total Accumulated Depreciation	<u>16,658,385</u>	<u>1,151,112</u>	<u>(27,917)</u>	<u>17,781,580</u>
Total Capital Assets Being Depreciated, Net	<u>22,343,558</u>	<u>(81,518)</u>	<u>3,660,182</u>	<u>25,922,222</u>
Business-type Activities Capital Assets, Net	<u>\$25,414,342</u>	<u>\$1,660,912</u>	<u>\$(6,740)</u>	<u>\$27,068,514</u>

Depreciation was charged to functional expenditures as follows:

Business-type Activities:	
Water & Wastewater	<u>\$1,151,112</u>

NOTE 8 – DUE TO OTHER GOVERNMENTS

As of September 30, 2016, amounts due to other governments consisted of the following:

	<u>Amount</u>	<u>Purpose</u>
Due to State of Texas	\$16,389	TCEQ fees
	<u>\$16,389</u>	

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Balance September 30, 2015	Additions	Retirements	Balance September 30, 2016	Amount Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Capital Leases	\$1,377,178	-	\$(538,699)	\$838,479	\$326,301
Other Liabilities:					
Compensated Absences	187,767	\$141,976	(133,773)	195,970	195,970
Total Governmental Activities Long-term Liabilities	<u>\$1,564,945</u>	<u>\$141,976</u>	<u>\$(672,472)</u>	<u>\$1,034,449</u>	<u>\$522,271</u>
BUSINESS-TYPE ACTIVITIES:					
Bonds, Notes and Leases:					
Revenue Refunding Bonds, Series 2012	\$7,095,000	-	\$(555,000)	\$6,540,000	\$565,000
Revenue Bonds, Series 2014	2,910,000	-	(50,000)	2,860,000	50,000
Capital Leases	83,145	-	(33,222)	49,923	18,168
Bonds, Notes and Leases	10,088,145	-	(638,222)	9,449,923	633,168
Bond Premiums Received	571,615	-	(46,657)	524,958	-
Total Bonds, Notes and Leases	<u>10,659,760</u>	<u>-</u>	<u>(684,879)</u>	<u>9,974,881</u>	<u>633,168</u>
Total Business-type Activities Long-term Liabilities	<u>\$10,659,760</u>	<u>-</u>	<u>\$(684,879)</u>	<u>\$9,974,881</u>	<u>\$633,168</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, 2016

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, 2016, including total principal of \$9,400,000 and total interest of \$2,665,075.

Year ending September 30	Principal	Interest	Total
2017	\$615,000	\$326,575	\$941,575
2018	630,000	308,125	938,125
2019	650,000	289,225	939,225
2020	690,000	269,725	959,725
2021	715,000	245,950	960,950
2022-2026	4,040,000	837,876	4,877,876
2027-2031	1,210,000	318,600	1,528,600
2032-2034	850,000	69,000	919,000
Totals	<u>\$9,400,000</u>	<u>\$2,665,076</u>	<u>\$12,065,076</u>

The amount available in the Water and Sewer Enterprise Fund debt service accounts as of September 30, 2016, is \$1,104,070 to service the above bonded indebtedness. This consists of \$121,770 in interest and sinking funds and \$982,300 in reserve funds.

Capital Leases

During the fiscal year, the District entered into additional leases for machinery and equipment which meet the criteria for capitalization in both the General Fund and the Water and Wastewater Fund. 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, 2016, amounted to \$1,735,107 and are included in capital assets. The related present values of the remaining obligations under the capital leases of \$888,402 are included in long-term liabilities (\$838,479 in governmental-type activities and \$49,923 in business-type activities.)

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – LONG-TERM LIABILITIES (CONTINUED)

The future minimum obligations under capital leases at September 30, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$344,469	\$20,694	\$365,163
2018	252,378	12,091	264,469
2019	205,984	5,374	211,358
2020	85,570	51	85,621
Totals	<u>\$888,401</u>	<u>\$38,210</u>	<u>\$926,611</u>

Subsequent to September 30, 2016, the District entered into an additional capital lease for the purchase of equipment totalling \$626,859 for governmental activities. As a result of this new lease, future minimum obligations under capital leases will be as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$453,997	\$37,953	\$491,950
2018	375,579	27,204	402,783
2019	333,186	16,485	349,671
2020	216,902	7,033	223,935
2021	135,597	2,717	138,314
Totals	<u>\$1,515,261</u>	<u>\$91,392</u>	<u>\$1,606,653</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 \$195,970 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 death benefits for all of its full-time 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 upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

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.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10 – PENSION PLAN (CONTINUED)

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, 2015, the following employees were covered by the plan:

Active employees	45
Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	<u>10</u>
	<u>69</u>

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 2016, and 15.44% for the months of the accounting year in 2015. The contribution rate payable by the employee members for calendar year 2015 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, 2015, 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, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Investment rate of return	8.0 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 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012. In addition, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long term expected rate of return on plan investments was determined using a building-block method in which best estimate ranges of expected future real rates (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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, 2016

NOTE 10 – PENSION PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate Of Return</u>
Domestic Equities	14.5%	5.45%
Private Equity	14.0%	8.45%
Global Equities	1.5%	5.75%
International Equities-Developed	10.0%	5.45%
International Equities –Emerging	8.0%	6.45%
Investment – Grade Bonds	3.0%	1.00%
High-Yield Bonds	3.0%	5.10%
Opportunistic Credit	2.0%	5.09%
Direct Lending	5.0%	6.40%
Distressed Debt	3.0%	8.10%
REIT Equities	3.0%	4.00%
Master Limited Partnerships	3.0%	6.80%
Private Real Estate Partnerships	5.0%	6.90%
Hedge Funds	25.0%	5.25%
Total	<u>100.0%</u>	

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.

Changes in the District's Net Pension Liability

Changes in the District's net pension liability for the year ended December 31, 2015 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances, December 31, 2014	\$7,396,638	\$6,019,973	\$1,376,665
Changes for the Year:			
Service Cost	239,916		239,916
Interest on Total Pension Liability	599,247		599,247
Effect of Plan Changes	(56,493)		(56,493)
Effect of Economic/Demographic Gains/Losses	(82,650)		(82,650)
Effect of Assumptions Changes or Inputs	56,442		56,442
Refund of Contributions	(752)	(752)	-
Benefit Payments	(236,105)	(236,105)	-
Administrative Expenses		(4,380)	4,380
Member Contributions		147,095	(147,095)
Net Investment Income		(116,686)	116,686
Employer Contributions		324,450	(324,450)
Other Charges		(5,416)	5,416
Net Changes	<u>519,605</u>	<u>108,206</u>	<u>411,399</u>
Balances, December 31, 2015	<u>\$7,916,243</u>	<u>\$6,128,179</u>	<u>\$1,788,064</u>

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10 – PENSION PLAN (CONTINUED)

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	\$8,968,308	\$7,916,243	\$7,040,660
Fiduciary Net Position	<u>6,128,179</u>	<u>6,128,179</u>	<u>6,128,179</u>
Net Pension Liability/(Asset)	<u>\$2,840,129</u>	<u>\$1,788,064</u>	<u>\$912,481</u>

Deferred Inflows/Outflows of Resources

As of December 31 2015, 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	\$70,843	\$19,756
Changes in Assumptions	-	48,378
Net Difference Between Projected and Actual Earnings	-	545,908
Contributions Made Subsequent to December 31,2015	-	254,617
Total	<u>\$70,843</u>	<u>\$868,659</u>

Contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:

2016	\$141,002
2017	141,002
2018	141,002
2019	123,730
2020	207
Thereafter	<u>(3,743)</u>
Total	<u>\$543,200</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.

TRINITY BAY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 12 – GRANTS

During fiscal year 2016, the District recorded grant funding as follows:

	<u>Disaster Recovery</u>
Capital Projects Fund - Structures	\$401,086
Water & Wastewater Fund - Disaster Recovery	<u>33,207</u>
Total	<u><u>\$434,293</u></u>

During 2016, 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 recognized \$0.4 million in capital grants related to these projects in fiscal year 2016. As of September 30, 2016, the District had the following related to these projects:

Due from FEMA	\$548,541
Advances Received but Unused	<u>(118,478)</u>
Net Amount Due from FEMA	<u><u>\$430,063</u></u>

The District also received \$33,207 in FEMA disaster recovery funding which stemmed from projects completed in 2009. As the District had not anticipated collecting this additional funding, the grant revenue was recognized upon receipt in 2016.

REQUIRED SUPPLEMENTARY INFORMATION

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
REVENUES:				
Ad Valorem Taxes	\$3,630,000	\$3,630,000	\$3,643,687	\$13,687
Tax Penalty and Interest	55,000	55,000	60,481	5,481
Other Taxes	8,500	8,500	6,601	(1,899)
Investment Income	8,000	8,000	6,530	(1,470)
Intergovernmental Revenues	-	-	272,012	272,012
Other Revenues and Receipts	500	500	41,121	40,621
TOTAL REVENUES	3,702,000	3,702,000	4,030,432	328,432
EXPENDITURES:				
Personnel Costs, including Benefits	1,665,530	1,698,530	1,670,713	27,817
Supplies	279,700	279,700	215,654	64,046
Repairs and Maintenance	124,100	124,100	198,906	(74,806)
Maintenance of Plants and Buildings	60,500	60,500	864	59,636
Professional Fees	53,000	53,000	38,053	14,947
Utilities	23,500	23,500	22,252	1,248
Contract and Outside Services, including Capital Leases	804,300	771,300	698,460	72,840
Sundry	17,800	17,800	10,367	7,433
Capital Expenditures	594,611	594,611	245,763	348,848
TOTAL EXPENDITURES	3,623,041	3,623,041	3,101,032	522,009
OTHER FINANCING SOURCES (USES):				
Transfers (In) Out	(461,800)	(461,800)	(228,039)	233,761
TOTAL OTHER FINANCING SOURCES (USES)	(461,800)	(461,800)	(228,039)	233,761
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES (A)	<u>\$(382,841)</u>	<u>\$(382,841)</u>	701,361	<u>\$1,084,202</u>
FUND BALANCES, BEGINNING OF YEAR			3,881,405	
FUND BALANCES, END OF YEAR			<u>\$4,582,766</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, 2016

	Actuarial Valuation Date 12/31/2015	Actuarial Valuation Date 12/31/2014
Total Pension Liability		
Service Cost	\$239,916	\$233,778
Interest on Total Pension Liability	599,247	551,401
Effect of Plan Changes	(56,493)	-
Effect of Assumption Changes	56,442	-
Effect of Economic/Demographic (Gains) or Losses	(82,650)	27,659
Benefit Payments/Refunds of Contributions	(236,857)	(213,843)
Net Change in Total Pension Liability	<u>519,605</u>	<u>598,995</u>
Total Pension Liability, Beginning	<u>7,396,638</u>	<u>6,797,643</u>
Total Pension Liability, Ending (a)	<u>\$7,916,243</u>	<u>\$7,396,638</u>
Fiduciary Net Position		
Employer Contributions	\$324,450	\$305,717
Member Contributions	147,095	138,602
Investment Income Net of Investment Expenses	(116,686)	366,990
Benefit Payments/Refunds of Contributions	(236,857)	(213,843)
Administrative Expenses	(4,380)	(4,419)
Other	(5,416)	(9,035)
Net Change in Fiduciary Net Position	<u>108,206</u>	<u>584,012</u>
Fiduciary Net Position, Beginning	<u>6,019,973</u>	<u>5,435,961</u>
Fiduciary Net Position, Ending (b)	<u>6,128,179</u>	<u>\$6,019,973</u>
Net Pension Liability/(Asset), Ending = (a) – (b)	<u>\$1,788,064</u>	<u>\$1,376,665</u>
Fiduciary Net Position as a % of Total Pension Liability	77.41%	81.39%
Pensionable Covered Payroll	\$2,101,363	\$1,980,030
Net Pension Liability as a % of Covered Payroll	85.09%	69.53%

TRINITY BAY CONSERVATION DISTRICT
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2016

<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 (1)</u>	<u>Actual</u> <u>Contribution</u> <u>as a % of</u> <u>Covered</u> <u>Payroll</u>
2006	\$120,975	\$120,975	0	\$1,341,185	9.0%
2007	135,641	135,641	0	1,418,834	9.6%
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%

(1) 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	10.8 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed marked
Inflation	3.0%
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	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

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, 2016

	Water and Wastewater Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES</u>				
Water Sales (Including Capital Improvements Fees)	\$3,634,708	\$3,634,708	\$3,660,241	\$25,533
Sewer Sales	625,000	625,000	636,936	11,936
Penalty Income	22,000	22,000	22,900	900
Reconnect Fees	45,000	45,000	42,160	(2,840)
Bulk Water Sales	15,000	15,000	7,422	(7,578)
Tapping Fees – Water	65,000	65,000	81,400	16,400
Tapping Fees – Sewer	50,400	50,400	41,800	(8,600)
Line Extensions & Other	-	-	284,921	284,921
Interest Income	3,500	3,500	3,185	(315)
Miscellaneous Income	10,000	10,000	4,659	(5,341)
TOTAL OPERATING REVENUES	4,470,608	4,470,608	4,785,624	315,016
<u>OPERATING EXPENDITURES</u>				
Personnel Costs	1,837,500	1,874,000	1,748,935	125,065
Supplies	439,500	439,500	376,340	63,160
Repair and Maintenance	37,700	37,700	46,864	(9,164)
Maintenance of Plants and Buildings	51,000	51,000	42,774	8,226
Professional Fees	114,000	114,000	64,189	49,811
Utilities	183,000	183,000	199,343	(16,343)
Contract and Outside Services	539,600	503,100	366,073	137,027
Sundry	23,700	23,700	21,489	2,211
Capital Expenditures and Capital Leases	606,408	606,408	1,039,133	(432,725)
Contingency	-	-	-	-
TOTAL OPERATING EXPENDITURES	3,832,408	3,832,408	3,905,140	(72,732)
EXCESS (DEFICIT) OF OPERATING REVENUES OVER EXPENDITURES	638,200	638,200	880,484	242,284
<u>NON-OPERATING REVENUES (EXPENDITURES)</u>				
Interest Income - Debt Service	-	-	5,241	5,241
Interest Expense and Fiscal Charges	-	-	(292,193)	(292,193)
Bond Principal Payments	-	-	(605,000)	(605,000)
Proceeds from Sale of Assets	-	-	55,100	55,100
Grant Revenue	-	-	33,207	33,207
Transfer In From Other Funds	461,800	461,800	461,800	-
Debt Service	(1,100,000)	(1,100,000)	-	1,100,000
Capital Expenditures for Construction of Building	-	(1,662,713)	(1,806,113)	(143,400)
TOTAL NON-OPERATING REVENUES (EXPENDITURES)	(638,200)	(2,300,913)	(2,147,958)	152,955
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES (A)	\$ -	\$(1,662,713)	\$(1,267,474)	\$395,239
Reconciliation of Actual Amounts on the Budget Basis to Change in Net Assets:				
Excess (Deficit) of Revenues over Expenditures			\$(1,267,474)	
Capital Expenses Capitalized			2,812,024	
Capital Contributions from General Fund			100,109	
Basis in Asset Sold			(106,848)	
Depreciation			(1,151,112)	
Debt Payments Applied to Debt Balances			638,222	
Change in Net Position			<u>\$1,024,921</u>	

(A) The District budgeted the use of reserves for construction of the office building.

TEXAS SUPPLEMENTARY INFORMATION

TRINITY BAY CONSERVATION DISTRICT
SERVICES AND RATES
SEPTEMBER 30, 2016

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 <u> </u>
WASTEWATER:	\$ <u>10.00</u>	<u>2,000</u>	<u>Y</u>	\$ <u>2.45</u>	<u>2,001</u> to <u> </u>
				\$ <u> </u>	<u> </u> to <u> </u>
SURCHARGE:	\$ <u>N/A</u>	<u> </u>	<u> </u>	\$ <u> </u>	<u> </u> to <u> </u>

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>5,318</u>	<u>4,051</u>	X 1.0	<u>4,051</u>
1"	<u>245</u>	<u>212</u>	X 2.5	<u>530</u>
1 1/2"	<u>39</u>	<u>38</u>	X 5.0	<u>190</u>
2"	<u>58</u>	<u>53</u>	X 8.0	<u>424</u>
3"	<u>11</u>	<u>9</u>	X 15.0	<u>135</u>
4"	<u>9</u>	<u>8</u>	X 25.0	<u>200</u>
6"	<u>1</u>	<u>1</u>	X 50.0	<u>50</u>
8"			X 80.0	
10"			X 115.0	
Total Water	<u>5,681</u>	<u>4,372</u>		<u>5,570</u>
Total Wastewater	<u>3,511</u>	<u>2,862</u>	X 1.0	<u>2,862</u>

TRINITY BAY CONSERVATION DISTRICT
GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2016

TSI-2

Personnel Expenditures (including benefits)	\$1,664,038
Professional Fees:	
Auditing	21,300
Legal	16,753
	<u>38,053</u>
Contracted Services:	
Appraisal District	23,942
Tax Collectors	7,871
Other	33,566
	<u>65,379</u>
Utilities and Telephone	22,252
Repairs and Maintenance	199,770
Administrative Expenditures:	
Directors' Fees	6,675
Office Supplies	10,074
Insurance	67,165
Other Administrative Expenditures	12,564
	<u>96,478</u>
Capital Outlay:	
Capitalized Assets	245,763
Debt Services:	
Principal:	538,699
Interest:	25,020
	<u>563,719</u>
Other Expenditures	<u>205,580</u>
TOTAL EXPENDITURES	<u>\$3,101,032</u>

Number of persons employed by the District: 45 Full – Time 1 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, 2016

TSI-2

Personnel Expenditures (including benefits)	\$1,742,260
Professional Fees:	
Auditing	21,300
Legal	16,686
Engineering	26,090
Other	113
	<u>64,189</u>
Purchased Services For Resale:	
Bulk Water and Wastewater Purchases	132,242
Contracted Services:	
Other Contracted Services	165,019
Utilities and Telephone	199,343
Plant Operations and Maintenance (including supplies)	406,976
Repairs and Maintenance	46,864
Administrative Expenses:	
Directors' Fees	6,675
Office Supplies	12,138
Insurance	67,982
	<u>86,795</u>
Solid Waste Disposal	830
Depreciation	1,151,112
Other Expenses	<u>21,489</u>
TOTAL OPERATING EXPENSES	<u>\$4,017,119</u>

Number of persons employed by the District: 45 Full - Time 1 Part - Time

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

TRINITY BAY CONSERVATION DISTRICT
TEMPORARY INVESTMENTS
SEPTEMBER 30, 2016

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	.15%	10/4/16	<u>\$3,224,745</u>	<u>-</u>
Total General Fund				<u>3,224,745</u>	<u>-</u>
<u>Water and Sewer Enterprise Fund</u>					
Certificate of Deposit (Meter Deposits)	7080284	.15%	10/4/16	711,096	-
Certificate of Deposit (Revenue)	7080283	.15%	10/4/16	380,841	-
Certificate of Deposit (2012 I & S)	7080285	.15%	10/4/16	88,562	-
Certificate of Deposit (2012 I & S Reserve)	7080286	.50%	8/2/17	792,600	-
Certificate of Deposit (2014 Project I&S)	7080332	.15%	10/6/16	<u>24,691</u>	<u>-</u>
Total Water and Sewer Enterprise Fund				<u>1,997,790</u>	<u>-</u>
Total – All Funds				<u>\$5,222,535</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, 2016

TSI-4

	<u>Maintenance Taxes</u>
Taxes Receivable, Beginning of Year	\$456,662
2015 Original Tax Levy	3,549,993
Adjustments	<u>160,144</u>
Total to be Accounted For	<u>4,166,799</u>
Tax Collections:	
Current Year	(3,570,474)
Prior Years	<u>(73,213)</u>
Total Collections	<u>(3,643,687)</u>
Taxes Receivable, End of Year	<u><u>\$523,112</u></u>
Taxes Receivable, By Years	
2015	\$152,381
2014	65,319
2013	39,133
2012	36,662
2011	29,061
2010	28,721
2009	24,349
2008	22,941
2007	22,052
2006	19,405
2005	15,842
2004 and Earlier	<u>67,246</u>
Taxes Receivable, End of Year	<u><u>\$523,112</u></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, 2016

TSI-4

	2015	2014	2013	2012
Property Valuations:				
Chambers County	\$863,283,512	\$901,999,781	\$668,539,248	\$576,554,455
Jefferson County	5,697,916	9,906,849	11,950,260	18,423,270
Total Property Valuations	<u>\$868,981,428</u>	<u>\$911,906,630</u>	<u>\$680,489,508</u>	<u>\$594,977,725</u>
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$0.40870	\$0.40870	\$0.41210	\$0.41210
Debt Service tax rates	-	-	-	-
Total Tax Rates per \$100 Valuation	<u>\$0.40870</u>	<u>\$0.40870</u>	<u>\$0.41210</u>	<u>\$0.41210</u>
Original Tax Levy:	<u>\$3,549,993</u>	<u>\$3,726,020</u>	<u>\$2,803,130</u>	<u>\$2,452,029</u>
Percent of Taxes Collected to Taxes Levied	<u>102.6%</u>	<u>101.3%</u>	<u>100.2%</u>	<u>102.2%</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, 2016

TSI-5

Due During Fiscal Years Ending	February 15	August 15		Total
	Interest	Principal	Interest	
2017	\$110,088	\$565,000	\$110,087	\$785,175
2018	101,613	580,000	101,612	783,225
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>\$651,815</u>	<u>\$6,540,000</u>	<u>\$651,811</u>	<u>\$7,843,626</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, 2016

TSI-5

Due During Fiscal Years Ending	February 15		August 15		Total
	Interest	Principal	Interest	Principal	
2017	\$53,200	\$50,000	\$53,200		\$156,400
2018	52,450	50,000	52,450		154,900
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>\$680,725</u>	<u>\$2,860,000</u>	<u>\$680,725</u>		<u>\$4,221,450</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, 2016

TSI-5

Due During Fiscal Years Ending	February 15		August 15		Total
	Interest	Principal	Interest	Principal	
2017	\$163,287	\$615,000	\$163,288		\$941,575
2018	154,062	630,000	154,063		938,125
2019	144,612	650,000	144,613		939,225
2020	134,862	690,000	134,863		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	84,112	795,000	84,113		963,225
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>\$1,332,535</u>	<u>\$9,400,000</u>	<u>\$1,332,540</u>		<u>\$12,065,075</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, 2016

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	\$7,095,000	\$2,910,000	\$10,005,000
Bonds Sold During the Current Year	-	-	-
Retirements During the Current Year	555,000	50,000	605,000
Bonds Outstanding at End of Current Year	\$6,540,000	\$2,860,000	\$9,400,000
Interest Paid Current Year	\$231,275	\$107,900	\$339,175

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, 2016: \$1,104,070
Average Annual Debt Service Payment (Principal & Interest) for Remaining Term of All Debt: \$ 670,282

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, 2016

TSI-7

	Amounts					Percent of Fund Total Revenues				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
OPERATING REVENUES:										
Taxes	\$3,650,288	\$3,792,197	\$2,824,236	\$2,512,219	\$2,107,358	90.5%	98.3%	96.3%	96.3%	96.7%
Penalty and Interest	60,481	54,955	62,696	65,257	51,476	1.5%	1.4%	2.1%	2.5%	2.4%
Interest Income	6,530	6,469	5,725	26,935	17,866	0.2%	0.2%	0.2%	1.0%	0.8%
Grant Income	-	-	11,250	-	-	-	-	0.4%	-	-
Other Revenues	313,133	2,515	28,278	4,873	2,250	7.8%	0.1%	1.0%	0.2%	0.1%
TOTAL REVENUES	4,030,432	3,856,136	2,932,185	2,609,284	2,178,950	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENDITURES:										
Personnel Costs	1,670,713	1,353,127	1,412,357	1,158,020	1,132,804	41.4%	35.1%	48.2%	44.4%	52.0%
Supplies	215,654	237,493	221,077	254,983	309,565	5.3%	6.2%	7.5%	9.8%	14.2%
Repairs and Maintenance	199,770	144,419	95,619	124,818	167,140	5.0%	3.7%	3.3%	4.8%	7.7%
Utilities	22,252	19,030	18,876	42,611	25,028	0.6%	0.5%	0.6%	1.6%	1.1%
Contract Services and Professional Fees	172,794	217,091	201,612	271,053	188,483	4.2%	5.6%	6.9%	10.4%	8.7%
Sundry	10,367	14,493	9,241	14,020	11,354	0.3%	0.4%	0.3%	0.5%	0.5%
Capital Expenditures	245,763	1,069,311	535,824	685,273	147,157	6.1%	27.7%	18.3%	26.3%	6.8%
Debt Service	563,719	499,384	379,202	322,430	204,907	14.0%	13.0%	12.9%	12.4%	9.4%
TOTAL EXPENDITURES	3,101,032	3,554,348	2,873,808	2,873,208	2,186,438	76.9%	92.2%	98.0%	110.1%	100.3%
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	929,400	301,788	58,377	(263,924)	(7,488)	23.1%	7.8%	2.0%	-10.1%	-0.3%
OTHER FINANCING SOURCES (USES):										
Capital Lease Financing Proceeds	-	776,397	345,392	446,175	-	-	20.1%	11.8%	17.1%	-
Proceeds from Sale of Assets	-	-	-	63,751	414,602	-	-	-	2.4%	19.0%
FEMA Grant Revenue, Net	-	-	-	31,197	46,312	-	-	-	1.2%	2.1%
Transfers (To) From Other Funds	(228,039)	(448,956)	90,689	3,704	(135,407)	-5.7%	-11.6%	3.1%	0.1%	-6.2%
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 701,361	\$ 629,229	\$ 494,458	\$ 280,903	\$ 318,019	17.4%	16.3%	16.9%	10.8%	14.6%

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, 2016

TSI-7

	Amounts					Percent of Fund Total Revenues				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
OPERATING REVENUES:										
Water Service	\$3,667,663	\$3,285,229	\$3,400,885	\$3,268,806	\$3,230,261	76.6%	77.5%	79.8%	77.9%	80.0%
Sewer Service	636,936	630,962	643,972	610,647	622,557	13.2%	14.8%	15.1%	14.6%	15.4%
Penalty and Income	22,900	21,189	23,235	20,855	21,942	0.5%	0.5%	0.5%	0.5%	0.5%
Tap and Connection Fees	165,360	297,226	153,859	241,196	153,581	3.5%	7.0%	3.6%	5.8%	3.8%
Line Extensions and Other Fees	284,921	-	-	-	-	6.0%	-	-	-	-
Investment Income	3,185	3,307	3,118	9,979	7,371	0.1%	0.1%	0.1%	0.2%	0.2%
Other	4,659	1,000	36,148	42,624	100	0.1%	0.1%	0.9%	1.0%	0.1%
TOTAL OPERATING REVENUES	4,785,624	4,238,913	4,261,217	4,194,107	4,035,812	100.0%	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES:										
Personnel Costs	1,748,935	1,668,621	1,571,540	1,530,794	1,363,191	36.4%	39.4%	36.9%	36.5%	33.8%
Plant Operations, Maintenance and Supplies	419,114	465,131	491,224	507,403	598,167	8.8%	11.0%	11.5%	12.1%	14.8%
Contractual Services and Professional Fees	430,262	582,252	581,676	595,687	552,860	9.0%	13.7%	13.7%	14.2%	13.7%
Utilities	199,343	179,996	192,203	137,856	164,113	4.2%	4.2%	4.5%	3.3%	4.1%
Repairs and Maintenance	46,864	38,989	41,230	33,075	23,659	1.0%	0.9%	1.0%	0.8%	0.6%
Sundry	21,489	24,198	23,345	30,864	38,421	0.4%	0.6%	0.5%	0.7%	1.0%
Depreciation	1,151,112	1,090,449	1,015,350	982,567	929,941	24.1%	25.7%	23.8%	23.4%	23.0%
TOTAL OPERATING EXPENSES	4,017,119	4,049,636	3,916,568	3,818,246	3,670,352	83.9%	95.5%	91.9%	91.0%	90.9%
OPERATING INCOME (LOSS)	768,505	189,277	344,649	375,861	365,460	16.1%	4.5%	8.1%	9.0%	9.1%
NON-OPERATING REVENUES (EXPENSES):										
Gain (Loss) on Disposition of Assets	(51,748)	-	5,498	4,103	25,731	-1.1%	-	0.1%	0.1%	0.6%
Disaster Recovery, Net	33,207	-	(4,922)	-	105,684	0.7%	-	-0.1%	-	2.6%
Interest Income-Debt Service and Construction	5,241	5,390	5,194	48,125	9,886	0.1%	0.1%	0.1%	1.1%	0.2%
Interest Expense and Fiscal Charges	(292,193)	(279,090)	(212,491)	(262,275)	(528,656)	-6.1%	-6.6%	-5.0%	-6.3%	-13.1%
Bond Issue Costs and Miscellaneous	-	(167,813)	-	-	2,572	0.0%	-4.0%	-	-	-
TOTAL NON-OPERATING REVENUES, NET	(305,493)	(441,513)	(206,721)	(210,047)	(384,783)	-6.4%	-10.5%	-4.9%	-5.0%	-9.5%
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, AND TRANSFERS	463,012	(252,236)	137,928	165,814	(19,323)	9.7%	-6.0%	3.2%	4.0%	-0.5%
CAPITAL CONTRIBUTIONS FROM GRANTS	-	-	72,437	349,913	525,202	-	-	1.7%	8.3%	13.0%
TRANSFERS (TO) FROM OTHER FUNDS	561,909	461,800	-	-	-	11.7%	10.9%	-	-	-
CHANGE IN NET POSITION	\$ 1,024,921	\$ 209,564	\$ 210,365	\$ 515,727	\$ 505,879	21.4%	4.9%	4.9%	12.3%	12.5%

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, 2016

TSI-7

	Operations	Debt Service	Total	Adjustments/ Eliminations (Note A)	Combined Total
Operating Revenues					
Charges for Services, net	\$ 4,777,780	\$ -	\$ 4,777,780	\$ -	\$ 4,777,780
Investment Income	3,185	-	3,185	-	3,185
Other Income	4,659	-	4,659	-	4,659
Total Revenues	4,785,624	-	4,785,624	-	4,785,624
Operating Expenses					
Personnel Cost	1,748,935	-	1,748,935	-	1,748,935
Supplies	376,340	-	376,340	-	376,340
Repairs and Maintenance	46,864	-	46,864	-	46,864
Maintenance of Plants and Buildings	42,774	-	42,774	-	42,774
Professional Fees	64,189	-	64,189	-	64,189
Utilities	199,343	-	199,343	-	199,343
Contract and Outside Services	366,073	-	366,073	-	366,073
Sundry	21,489	-	21,489	-	21,489
Depreciation	1,151,112	-	1,151,112	-	1,151,112
Total Operating Expenses	4,017,119	-	4,017,119	-	4,017,119
Operating Income (Loss)	768,505	-	768,505	-	768,505
Non-Operating Revenues (Expenses)					
Disaster Recovery Grant Revenue	33,207	-	33,207	-	33,207
Gain (Loss) on Disposition of Assets	(51,748)	-	(51,748)	-	(51,748)
Interest Income, Debt Service and Constr.	-	5,241	5,241	-	5,241
Interest Expense, Debt	-	(290,943)	(290,943)	-	(290,943)
Administration Fees	-	(1,250)	(1,250)	-	(1,250)
Bond Principal Payments	-	(605,000)	(605,000)	605,000	-
Total Non-Operating	(18,541)	(891,952)	(910,493)	605,000	(305,493)
Transfers in (out)	(390,591)	952,500	561,909	-	561,909
Change in Net Position	\$ 359,373	\$ 60,548	\$ 419,921	\$ 605,000	\$ 1,024,921

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, 2016

TSI-7

	2012 REVENUE REFUNDING BONDS	2014 REVENUE BONDS	TOTAL DEBT SERVICE ACCOUNTS
REVENUES:			
Interest Received	\$4,652	\$589	\$5,241
Transfers From Other Funds	796,000	156,500	952,500
TOTAL REVENUES	800,652	157,089	957,741
EXPENDITURES:			
Bond Principal Paid	555,000	50,000	605,000
Bond Interest Paid	231,275	107,900	339,175
Paying Agent's Fee	500	750	1,250
TOTAL EXPENDITURES	786,775	158,650	945,425
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	\$13,877	\$(1,561)	\$12,316
CASH AND INVESTMENTS – BEGINNING OF YEAR			
Debt Service Accounts	\$85,841	23,613	\$109,454
Reserve Accounts	786,600	195,700	982,300
Total	\$872,441	\$219,313	\$1,091,754
CASH AND INVESTMENTS – END OF YEAR			
Debt Service Accounts	\$99,718	\$22,052	\$121,770
Reserve Accounts	786,600	195,700	982,300
Total	\$886,318	\$217,752	\$1,104,070

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, 2016

TSI-8

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 9/30/16</u>	<u>Expense Reimbursements 9/30/16</u>	<u>Title at Year End</u>
Board Members:				
Tommy Gilbert-Pct#1	5/2014-11/2018 (Elected)	\$2,550	\$445	Member
Michael L. Winzer-Pct#2	5/2012-11/2016 (Elected)	\$2,850	\$165	Member
Jeffrey Jenkins-Pct#3	5/2014-11/2018 (Elected)	\$2,850	\$403	President
Greggory Turner-Pct#4	5/2012-11/2016 (Elected)	\$2,250	\$397	Vice President
Dorothy F. Hamilton-Pct#5	5/2012-11/2016 (Elected)	\$2,850	\$3,013	Secretary
Key Administrative Personnel:				
Jerry Shadden	3/2011-Present	\$143,617	\$695	General Manager
Consultants:				
Germer Gertz, LLP	11/2006-Present	\$28,510	-	Legal Counsel
Denise Hutter Chambers County Tax Collector	7/1982-Present	\$7,871	-	Tax Collector
Swaim, Brents & Assoc.	9/1997- Present	\$35,000	-	Auditor

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

FEDERAL AWARDS 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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
December 14, 2016

