

Nueces River Authority

Annual Financial Report

For the Year Ended August 31, 2012

Nueces River Authority

Table of Contents

	Page
Independent Auditors' Report	3
Management's Discussion and Analysis	5
Basic Financial Statements	
Statement of Net Assets	14
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Net Assets – Proprietary Fund Type	22
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type	23
Statement of Cash Flows – Proprietary Fund Type	24
Notes to Financial Statements	25
Required Supplemental Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund	45

Nueces River Authority

Table of Contents

(Continued)

	Page
Other Supplemental Information	
Debt Service Requirements – Series 2005 Bonds – Lake Texana Pipeline Project – Enterprise Fund	48
Schedule of Pollution Control Bonds Issued and Outstanding	49
Comparative Schedule of Revenues and Expenditures – General Fund	50
Insurance Coverage – Unaudited	51

Independent Auditors' Report

To the Board of Directors
Nueces River Authority
Uvalde, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Nueces River Authority (the "Authority") as of and for the year ended August 31, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Authority, as of August 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund on pages 5 through 12 and page 45, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 supplemental 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

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked unaudited, on which we express no opinion, is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robert Strohmann & Co LLP

Certified Public Accountants
November 26, 2012

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

This section of Nueces River Authority's (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended August 31, 2012. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

Government-Wide Highlights

- Net assets – The assets of the Authority exceeded its liabilities at August 31, 2012 by \$4,325,014. Of this amount, \$1,698,072 was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Authority's ongoing obligations.
- Changes in net assets – The Authority's total net assets increased by \$327,146 in fiscal year 2012. The increase is due to a reduction in operating expenses, due to the expiration of several long-term contracts.

Fund Statement Highlights

- Fund balance – As of the close of fiscal year 2012, the Authority's Governmental Funds reported a combined ending fund balance of \$1,743,683, an increase of \$32,961 from last year. The increase is due to a reduction in operating expenses, due to the expiration of several long-term contracts.

Overview of the Financial Statements

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplemental information*. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Authority's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Authority'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.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

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 supplemental information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* governmental activities' assets and liabilities. All 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 Authority's *net assets* and how they have changed. Net assets – the difference between the Authority's assets and liabilities – are one way to measure the Authority's financial health or *position*.

- Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Authority, you need to consider additional nonfinancial factors such as legislative law changes.

The government-wide financial statements of the Authority include the *governmental activities*. Most of the Authority's basic services are included here.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the Authority's most significant *funds* – not the Authority as a whole. Funds are accounting devices the Authority uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law.
- Other funds are also established to control and manage money for particular purposes or to show the Authority is properly using certain grants.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

The Authority has two types of funds:

- *Governmental Funds* – Most of the Authority's basic services are included in Governmental Funds, which focus on (1) how *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 Funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between Governmental Funds and the governmental activities. These reconciliations are presented on the page immediately following each Governmental Funds financial statement.
- *Proprietary Fund* – The Authority maintains one type of Proprietary Fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Authority's Enterprise Fund is related to water supply revenue bonds issued by the Authority for construction of the Mary Rhodes Memorial Water Supply Pipeline (Lake Texana Water Supply Pipeline), sometimes referred to herein as the Lake Texana Enterprise Fund.

A Proprietary Fund provides the same type of information as the government-wide financial statements, only in more detail.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Required Supplemental Information

The basic financial statements are followed by a section of required supplemental information. This section includes a budgetary comparison schedule. It provides detail comparisons of expenditures. Comparisons can be made between the original budget, final budget, and actual costs for the year.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Authority's combined net assets totaled \$4,325,014 at the end of 2012 (see Table A-1).

There is \$2,623,354 of net assets invested in capital assets. Further, \$1,698,072 represents unrestricted net assets that may be used to meet the Authority's ongoing obligations. Internally imposed designations of resources are not presented as restricted net assets.

**Table A-1
The Authority's Net Assets**

	2012			2011 Total
	Governmental Activities	Business-Type Activities	Total	
Current and other assets	\$ 1,852,464	\$ 4,311,631	\$ 6,164,095	\$ 5,998,041
Capital and noncurrent assets	2,623,354	78,387,914	81,011,268	84,496,621
Total assets	\$ 4,475,818	\$ 82,699,545	\$ 87,175,363	\$ 90,494,662
Current liabilities	\$ 108,781	\$ 4,304,545	\$ 4,413,326	\$ 4,280,233
Long-term liabilities	42,023	78,395,000	78,437,023	82,216,561
Total liabilities	\$ 150,804	\$ 82,699,545	\$ 82,850,349	\$ 86,496,794
Net assets:				
Invested in capital assets	\$ 2,623,354	\$ -	\$ 2,623,354	\$ 2,323,707
Restricted	3,588	-	3,588	-
Unrestricted	1,698,072	-	1,698,072	1,674,161
Total net assets	\$ 4,325,014	\$ -	\$ 4,325,014	\$ 3,997,868

Changes in Net Assets

- The Authority's net assets increased by \$327,146, or 8% (see Table A-2). The increase is due to a reduction in operating expenses, due to the expiration of several long-term contracts.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

Table A-2
The Authority's Statement of Activities

	Net (Expenses) Revenues and Changes in Net Assets					
	2012 Primary Government					2011 Total
	Expenses	Program Revenues	Governmental Activities	Business-Type Activities	Total	
Governmental activities	\$ 993,820	\$ 1,280,012	\$ 286,192	\$ -	\$ 286,192	\$ (112,659)
Business-type activities	<u>4,314,081</u>	<u>4,314,081</u>	-	-	-	-
Total	<u>\$ 5,307,901</u>	<u>\$ 5,594,093</u>	286,192	-	286,192	(112,659)
Total general revenues			<u>40,954</u>	-	<u>40,954</u>	<u>69,953</u>
Change in net assets			327,146	-	327,146	(42,706)
Net assets at beginning of year			<u>3,997,868</u>	-	<u>3,997,868</u>	<u>4,040,574</u>
Net assets at end of year			<u>\$ 4,325,014</u>	<u>\$ -</u>	<u>\$ 4,325,014</u>	<u>\$ 3,997,868</u>

The Authority's total program revenues were \$5,594,093, which is an increase of \$19,232 compared to 2011. As discussed earlier, this increase is due to the expiration of several long-term contracts and a grant related to the Leakey Wastewater Facility received in 2011. Approximately 85% of the Authority's program revenues came from charges for services, with 9% from operating grants and contributions, and the remaining 6% from capital grants and contributions.

The Authority's expenses totaled \$5,307,901, which is a decrease of \$379,619 compared to 2011; approximately 81% came from business-type activities and the remaining 19% from governmental activities. The decrease in expense compared to 2011 is primarily due a reduction of the Lake Texana bond interest payment of \$172,816 compared to the 2011 payment.

Governmental Activities

The Authority's operations in this area are simple and consist of many recurring transactions. The primary function in governmental activities includes general operations. At year-end, these operating costs were \$993,820. Of this amount, \$7,268 represented depreciation expense on capital assets. The other four large expense items included salaries, in the amount of \$433,417; public education programs fees, in the amount of \$162,982; clean river program fees, in the amount of \$62,258; and professional fees, in the amount of \$55,153.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

Total revenues at year-end were \$1,280,012. This consisted \$713,650 in intergovernmental contracted services, and \$247,741 in public education programs contracted services. In fiscal year 2012, the Authority received \$318,621 in financial assistance from the Texas Water Development Board for the wastewater treatment plant to serve the City of Leakey.

Business-Type Activities

As noted earlier, the Authority has an Enterprise Fund. This fund (Lake Texana Water Supply Revenue Bond) accounts for 100% of the Authority's business-type activities. Refer to Note D in the notes to financial statements for a detailed description of this fund. For the year ended August 31, 2012, total expenses in this area amounted to \$4,314,081. All expenses were attributed to bond interest expense and fiscal agent fees.

The Authority is the conduit issuer of these bonds, for the benefit of the City of Corpus Christi, which by contracts with the Authority, guarantees and makes payment of all principal, interest, and other fees and expenses relating to these bonds. The City of Corpus Christi is solely responsible for the operation and maintenance of each project (the assets) and receives all revenues from the projects.

The business-type activities of the Authority had \$4,314,081 program revenues as of year-end, which consisted primarily of intergovernmental – special services revenue.

Financial Analysis of the Authority's Individual Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Authority's Governmental Funds is to provide information on near-term inflows, outflows, and balances of resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the Governmental Funds reported an ending fund balance of \$1,743,683, an increase of \$32,961 in comparison with the prior year.

Proprietary Funds

As previously noted, the Authority is a conduit issuer of a water supply revenue bond for the benefit of the City of Corpus Christi to fund the construction of a water supply project, the Mary Rhodes Memorial Water Supply Pipeline (Lake Texana Water Supply Pipeline). The Authority's Proprietary Funds consist of one fund that accounts (via intergovernmental revenue) for principal and interest payments, and receipts from the City of

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

Corpus Christi associated with the bond. The Lake Texana Pipeline project has current and long-term liabilities of \$4,304,545 and \$78,395,000, respectively, which consist of accrued interest and principal on bond payable. There were no defaults in payments on the bond.

General Fund Budgetary Highlights

Over the course of the year, the Authority revised its budget. The Authority had an original budget of \$1,006,791 and final budget of \$978,696, ending the year with \$988,873 in actual costs.

Capital Assets and Debt Administration

Capital Assets

At August 31, 2012, capital assets approximated 59% of total assets in the governmental activities. The \$2,623,354 in capital assets, net of accumulated depreciation, is primarily land, construction in progress, office furniture, and equipment. There are no capital assets in the business-type activities.

Long-Term Debt

At year-end, the Authority had \$82,741,568 in bonds and other payables outstanding, as shown in Table A-3. Of the total amount, \$3,785,000 represents principal payments due within one year. More detailed information about the Authority's debt is presented in the notes to financial statements.

Table A-3
The Authority's Long-Term Debt

	<u>2012</u>			<u>2011</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>Total</u>
Accrued interest	\$ -	\$ 519,545	\$ 519,545	\$ 542,077
Accrued compensated absences	42,023	-	42,023	36,561
Bonds payable	-	82,180,000	82,180,000	85,785,000
Total long-term debt	\$ <u>42,023</u>	\$ <u>82,699,545</u>	\$ <u>82,741,568</u>	\$ <u>86,363,638</u>

Nueces River Authority

Management's Discussion and Analysis

August 31, 2012

(Continued)

Economic Factors and Next Year's Budget

During fiscal year 2010, the Authority was awarded a grant from the Water Development Board for approximately \$2,200,000. The purpose of the grant was for land acquisition related to a wastewater treatment plant to serve the City of Leakey. During fiscal year 2010, the Authority acquired land for \$2,304,622. During the fiscal year ended August 31, 2012, the Texas Water Development Board approved a resolution of a request from the Authority for \$11,043,460 in financial assistance consisting of a \$9,961,460 loan, with up to 100% principal forgiveness, from the Clean Water State Revolving Fund, and a \$1,082,000 grant from the Economically Distressed Areas Program, to finance planning, acquisition, design, and construction costs for the wastewater treatment plant. Tentatively, the final design and the construction phase are scheduled to begin in fiscal year 2014. The loan funds were placed in a trust account under the name of the Authority, but the Texas Water Development Board holds the rights to those funds and are only disbursed to the Authority as funds are expensed. Therefore, the full amount of the loan is not included in the Authority's financial statements. As of August 31, 2012, the Authority had expenditures of \$318,621 related to this project. The Authority estimates the total project costs to be approximately \$16,200,000. As of August 31, 2012, the Authority does not have any construction commitments. In accordance with Exhibit F – Escrow Agreement of the Loan Forgiveness Agreement (TWDB Contract No. G110033), the proceeds under this contract shall not be considered as a banking deposit of the Authority. Accordingly, these funds have not been recorded in the financial statements of the Authority as of August 31, 2012.

Other than the expected funding, as described above, there are currently no other known or anticipated economic factors affecting next year's budget. It is anticipated revenues and expenses relating to the Authority's significant programs – the Clean Rivers Program, the Texas Water Development Board contract, and the Authority's general services contract with the City of Corpus Christi – will be similar to that experienced in fiscal year 2012.

Contacting the Authority's Financial Management

This financial report is designed to provide the public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Ms. Frankie Kruckemeyer, Director of Finance and Staff Services, Nueces River Authority, P.O. Box 349, Uvalde, Texas 78802-0349; telephone: 830-278-6810; fax: 830-278-2025; or e-mail: fkruckemeyer@nueces-ra.org.

Basic Financial Statements

Nueces River Authority

Statement of Net Assets

August 31, 2012

ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 394,105	\$ 7,086	\$ 401,191
Investments	1,187,830	-	1,187,830
Prepaid expenses	200	-	200
Receivables:			
Contract	248,366	4,304,545	4,552,911
Accrued interest	21,963	-	21,963
Total current assets	<u>1,852,464</u>	<u>4,311,631</u>	<u>6,164,095</u>
Noncurrent assets:			
Receivables:			
Contract	-	78,387,914	78,387,914
Capital assets:			
Land – Leakey	2,304,622	-	2,304,622
Construction in progress – Leakey	299,156	-	299,156
Furniture and equipment	200,026	-	200,026
Less accumulated depreciation	<u>(180,450)</u>	<u>-</u>	<u>(180,450)</u>
Total capital assets – net of accumulated depreciation	<u>2,623,354</u>	<u>-</u>	<u>2,623,354</u>
Total noncurrent assets	<u>2,623,354</u>	<u>78,387,914</u>	<u>81,011,268</u>
Total assets	<u>\$ 4,475,818</u>	<u>\$ 82,699,545</u>	<u>\$ 87,175,363</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 47,744	\$ -	\$ 47,744
Accrued interest	-	519,545	519,545
Deferred revenue	61,037	-	61,037
Current portion of bonds payable	-	3,785,000	3,785,000
Total current liabilities	<u>108,781</u>	<u>4,304,545</u>	<u>4,413,326</u>
Noncurrent liabilities:			
Accrued compensated absences	42,023	-	42,023
Bonds payable	-	78,395,000	78,395,000
Total noncurrent liabilities	<u>42,023</u>	<u>78,395,000</u>	<u>78,437,023</u>
Total liabilities	<u>\$ 150,804</u>	<u>\$ 82,699,545</u>	<u>\$ 82,850,349</u>
Net Assets			
Invested in capital assets	\$ 2,623,354	\$ -	\$ 2,623,354
Restricted	3,588	-	3,588
Unrestricted	1,698,072	-	1,698,072
Total net assets	<u>\$ 4,325,014</u>	<u>\$ -</u>	<u>\$ 4,325,014</u>

Nueces River Authority

Statement of Activities

August 31, 2012

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary governmental activities:				
Contracted services:				
General operations	\$ 986,552	\$ 466,099	\$ 495,292	\$ 318,621
Depreciation expense	<u>7,268</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>993,820</u>	<u>466,099</u>	<u>495,292</u>	<u>318,621</u>
Business-type activities:				
Lake Texana	<u>4,314,081</u>	<u>4,314,081</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>4,314,081</u>	<u>4,314,081</u>	<u>-</u>	<u>-</u>
Total primary governmental activities	<u>\$ 5,307,901</u>	<u>\$ 4,780,180</u>	<u>\$ 495,292</u>	<u>\$ 318,621</u>
General revenues:				
Investment income				
Other income				
Total general revenues				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ 293,460	\$ -	\$ 293,460
<u>(7,268)</u>	<u>-</u>	<u>(7,268)</u>
286,192	-	286,192
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
286,192	-	286,192
24,972	-	24,972
<u>15,982</u>	<u>-</u>	<u>15,982</u>
40,954	-	40,954
327,146	-	327,146
<u>3,997,868</u>	<u>-</u>	<u>3,997,868</u>
<u>\$ 4,325,014</u>	<u>\$ -</u>	<u>\$ 4,325,014</u>

Nueces River Authority

Balance Sheet – Governmental Funds

August 31, 2012

ASSETS	<u>General Fund</u>	<u>Leakey Capital Project Fund</u>	<u>Total Governmental Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 389,330	\$ 4,775	\$ 394,105
Investments	1,187,830	-	1,187,830
Prepaid expenses	200	-	200
Receivables:			
Contract	248,366	-	248,366
Accrued interest	21,963	-	21,963
Due from Capital Project Fund	<u>1,187</u>	<u>-</u>	<u>1,187</u>
Total current assets	<u>1,848,876</u>	<u>4,775</u>	<u>1,853,651</u>
Total assets	<u>\$ 1,848,876</u>	<u>\$ 4,775</u>	<u>\$ 1,853,651</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Current liabilities:			
Accounts payable	\$ 47,744	\$ -	\$ 47,744
Deferred revenue	61,037	-	61,037
Due to General Fund	<u>-</u>	<u>1,187</u>	<u>1,187</u>
Total liabilities	<u>108,781</u>	<u>1,187</u>	<u>109,968</u>
Fund Balances			
Restricted	-	3,588	3,588
Unassigned	<u>1,740,095</u>	<u>-</u>	<u>1,740,095</u>
Total fund balances	<u>1,740,095</u>	<u>3,588</u>	<u>1,743,683</u>
Total liabilities and fund balances	<u>\$ 1,848,876</u>	<u>\$ 4,775</u>	<u>\$ 1,853,651</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

August 31, 2012

Total fund balances – Governmental Funds balance sheet	\$ 1,743,683
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of accumulated depreciation are used in governmental activities, but are not reported in the funds	2,623,354
Payables for accrued compensated absences, which are not due in the current period, are not reported in the funds	<u>(42,023)</u>
Net assets of governmental activities – statement of net assets	<u>\$ 4,325,014</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended August 31, 2012

	<u>General Fund</u>	<u>Leakey Capital Project Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Contracted services:			
Intergovernmental	\$ 713,650	\$ -	\$ 713,650
Public education programs	247,741	-	247,741
Special project	15,901	302,720	318,621
Investment income	53,633	-	53,633
Unrealized loss	(28,661)	-	(28,661)
Other income	15,982	-	15,982
Total revenues	<u>1,018,246</u>	<u>302,720</u>	<u>1,320,966</u>
Expenditures			
General operations:			
Salaries	433,417	-	433,417
Payroll taxes	33,947	-	33,947
Employee medical insurance	50,971	-	50,971
Retirement	26,722	-	26,722
Directors' fees, travel, and meetings	10,933	-	10,933
Travel and conferences	17,757	-	17,757
Professional fees	55,153	-	55,153
SCRWSPG contributions	1,158	-	1,158
Telephone and fax	14,047	-	14,047
Dues, subscriptions, and publications	2,540	-	2,540
Insurance and bonds	7,557	-	7,557
Other government expense	2,896	-	2,896
Equipment and facilities rent	44,703	-	44,703
Office supplies and postage and delivery	3,251	-	3,251
Repairs and maintenance	3,373	-	3,373
Binding and printing	3,823	-	3,823
Miscellaneous	1,753	-	1,753
Capital outlay	6,037	299,132	305,169
CRP expenses	62,258	-	62,258
Public education programs	162,982	-	162,982
SB1 expenses	13,404	-	13,404
Aransas Creek	2,814	-	2,814
Source water protection	27,377	-	27,377
Total expenditures	<u>988,873</u>	<u>299,132</u>	<u>1,288,005</u>
Excess of revenues over expenditures	29,373	3,588	32,961
Fund balances at beginning of year	<u>1,710,722</u>	<u>-</u>	<u>1,710,722</u>
Fund balances at end of year	<u>\$ 1,740,095</u>	<u>\$ 3,588</u>	<u>\$ 1,743,683</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended August 31, 2012

Net change in fund balances – total Governmental Funds	\$ 32,961
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are not reported as expenses in the statement of activities	306,915
Depreciation of capital assets is used in governmental activities, but is not reported in the funds	(7,268)
Net change in accrued compensated absences	<u>(5,462)</u>
Change in net assets of governmental activities – statement of activities	\$ <u><u>327,146</u></u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Statement of Net Assets – Proprietary Fund Type

August 31, 2012

ASSETS	Lake Texana Project
Assets	
Current assets:	
Cash and cash equivalents	\$ 7,086
Receivables:	
Contract	<u>4,304,545</u>
Total current assets	<u>4,311,631</u>
Noncurrent assets:	
Receivables:	
Contract	<u>78,387,914</u>
Total noncurrent assets	<u>78,387,914</u>
Total assets	<u>\$ 82,699,545</u>
 LIABILITIES AND FUND EQUITY	
Liabilities	
Current liabilities:	
Accrued interest	\$ 519,545
Current portion of bonds payable	<u>3,785,000</u>
Total current liabilities	<u>4,304,545</u>
Long-Term Liabilities	
Bonds payable	<u>78,395,000</u>
Total long-term liabilities	<u>78,395,000</u>
Fund Equity	
Retained earnings:	
Restricted	-
Unrestricted	<u>-</u>
Total fund equity	<u>-</u>
Total liabilities and fund equity	<u>\$ 82,699,545</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type

Year Ended August 31, 2012

	<u>Lake Texana Project</u>
Nonoperating Revenues	
Intergovernmental – special services	\$ <u>4,314,081</u>
Total nonoperating revenues	<u>4,314,081</u>
Nonoperating Expenses	
Bond interest and fiscal agent fees	<u>4,314,081</u>
Total nonoperating expenses	<u>4,314,081</u>
Net income	-
Retained earnings at beginning of year	<u>-</u>
Retained earnings at end of year	\$ <u><u>-</u></u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Statement of Cash Flows – Proprietary Fund Type

Year Ended August 31, 2012

	<u>Lake Texana Project</u>
Cash Flows From Revenue Activities	
Cash received from City of Corpus Christi for contract principal and interest	\$ <u>7,919,081</u>
Net cash provided by revenue activities	<u>7,919,081</u>
Cash Flows From Capital and Related Financing Activities	
Cash payment for revenue bond principal	(3,605,000)
Cash payments for interest and fiscal agent fees	<u>(4,314,081)</u>
Net cash used in capital and related financing activities	<u>(7,919,081)</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>7,086</u>
Cash and cash equivalents at end of year	\$ <u><u>7,086</u></u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies

Reporting Entity

Nueces River Authority (the “Authority”) was created in 1935 as the Nueces River Conservation and Reclamation District (the “District”). The District’s name was changed to Nueces River Authority by the Texas Legislature in 1971. Duties and functions of the Authority are described in Article 8280-115, Texas Water Code Auxiliary Laws, as amended. The Authority has extensive powers in the control, storage, preservation, and distribution of the state’s water for domestic, municipal, and industrial uses; irrigation; mining and recovery of minerals; stock raising; underground water recharge; electric power generation; navigation, recreation, and pleasure; and other beneficial uses and purposes within the Nueces River Basin. The Authority’s service area includes all or part of 22 South Texas counties, covering nearly 18,000 square miles. The Authority is governed by a board of 21 directors appointed by the Texas governor, with the consent of the state Senate. The directors serve overlapping, 6-year terms. Management of the Authority is vested in an executive director, who is employed by the Board of Directors (the “Board”).

The Authority is empowered to issue tax-exempt revenue bonds under the provision of the “Clean Air Financing Act” (Texas), Vernon’s Texas Civil Statutes, Article 4477-52, and the regional Waste Disposal Act (Texas), Vernon’s Texas Codes Annotated, Water Code, Chapter 30, for the purpose of financing the acquisition and construction of air and water pollution control facilities.

As required by accounting principles generally accepted in the United States of America, financial statements should present the government and its component unit, an entity for which the government is considered to be financially accountable. A blended component unit, although a legally separate entity, is, in substance, part of the government’s operations, and data from these units would be combined with data of the primary government. A discretely presented component unit, on the other hand, would be reported in a separate column in the basic financial statements to emphasize that it is legally separate from the government. The Authority has no component units to report.

The Authority considered the guidelines specified by the Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, when determining which entities to include in the accompanying basic financial statements. Under these guidelines, the reporting entity consists of the primary government (all funds of the Authority), organizations for which the primary government is financially accountable, and any other organizations for which the nature and significance of their relationship with the primary government is such that exclusion could cause the Authority’s basic financial statements to be misleading or incomplete. Entities other than the primary government, which are included in the primary government’s financial statements, are called component units. Under the guidelines established by GASB Statements No. 14 and No. 39, no legally separate organizations met the necessary criteria for inclusion as component units in the basic financial statements.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The Authority follows the following standards:

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, establishes accounting and financial reporting standards for external financial reporting by state and local governments in order to enhance the understandability and usefulness of the financial reports to citizenry, legislative and oversight bodies, and investors and creditors.

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Amendment of GASB Statements No. 21 and No. 34*, revises the escheat reporting requirements, limits the topics discussed in the Management’s Discussion and Analysis, eliminates capitalization of construction-period interest requirement on capital assets used in governmental activities, and further clarifies provisions of GASB Statement No. 34.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, modifies, establishes, and rescinds certain financial statement disclosure requirements.

These standards had the following impact in the accompanying financial statements:

- Presentation of Management’s Discussion and Analysis
- Presentation of government-wide financial statements
- Major funds presentation for the Authority’s fund-level statements, as defined by the above GASB statements
- Replacing equity on the Proprietary Funds with new categories of net assets
- Reporting certain additional footnote disclosures
- Changing beginning equity in the Governmental Funds for the inclusion of general capital assets and related accumulated depreciation and depreciation expense

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Authority as a whole. These statements include all funds of the reporting entity except for Fiduciary Funds. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through intergovernmental revenues and reimbursements from participants. Business-type activities are financed by fees charged to external parties for goods or services.

In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those specifically associated with a program or function, and are clearly identifiable to a particular function. The Authority has certain indirect costs included in the program expenses reported for individual function and activities. Program revenues include charges paid by recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, such as investment income, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the Authority are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

- (a) Total assets, liabilities, revenues, or expenditures/expenses of that individual Governmental or Enterprise Funds are at least 10% of the corresponding total for all funds of that category or type
- (b) Total assets, liabilities, revenues, or expenditures/expenses of the individual Governmental and Enterprise Funds are at least 5% of the corresponding total for all governmental and business-type activities combined

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Governmental Funds

Governmental Funds are those through which most governmental functions of the Authority are financed. The acquisition, use, and balances of the Authority's expendable financial resources and the related current liabilities (except those, if any, which should be accounted for in Proprietary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination.

Major Governmental Funds:

General Fund – the General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Leakey Capital Project Fund – the Leakey Capital Project Fund is the Capital Project Fund of the Authority. It is used to account for all financial resources and expenditures related to the construction of the Leakey Wastewater Facility.

Proprietary Funds

Proprietary Funds are used to account for the Authority's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following Proprietary Fund type is maintained by the Authority:

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

In accordance with the GASB Codification of Governmental Accounting and Financial Reporting Standards ("Codification"), Section P80, the Authority has elected not to apply any standards of the Financial Accounting Standards Board issued after November 30, 1989.

The major Enterprise Fund is the Lake Texana Project. See Note D for a description of the fund.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

The accounts of the Authority are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. For this purpose, the Authority considers all revenues to be available if the revenues are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, if measurable, except for debt service expenditures and compensated absences, which are recognized as expenditures only when payment is due.

All Proprietary Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets represent the remaining portion of net assets.

Capital Assets

Capital assets, which include land, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the Proprietary Funds. Donated capital assets are valued at their estimated fair value on the date received.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Assets acquired are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of capital assets is charged as an expenditure/expense against operations. Accumulated depreciation is reported on the statement of net assets. Depreciation is generally recorded on the straight-line basis over the estimated life of the assets. The estimated useful lives are as follows:

<u>Asset Description</u>	<u>Asset Life</u>
Furniture and equipment	5 years
Leasehold improvements	5 years

Budgets and Budgetary Accounting

The Authority maintains control over revenues and expenditures in the General Fund by establishment of an annual operating budget. The budget, as formally adopted by the Board, establishes the maximum authorization for accounts of the General Fund. The executive director may not over expend a budget function by more than 25% and may not exceed total budgeted expenditures without approval of the Board. The executive director is allowed to exceed any expenditure in the Authority's budget, other than salaries, if the exceeded amount is reimbursable under approved contracts. Budget amounts, as amended during the year, are reported in the financial statements. Appropriations lapse at the end of the fiscal year. Enterprise Funds are not budgeted funds.

Cash and Cash Equivalents

For purpose of the statement of cash flows, all short-term highly liquid investments are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have maturity dates no longer than three months.

Investments

Investments are recorded at fair value. Fair value is determined by the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

The Authority has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires that certain investments be reported at fair value and that changes in the fair value of investments be reported as a component of investment income.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Deferred Revenue

The Authority receives payments from customers in advance for reimbursable expenses. The balance in deferred revenue represents these advances.

Risk Management

The Authority provides for risk management obligations by acquiring commercial insurance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

Compensated Absences

The Authority allows employees to accumulate vacation leave with certain limitations. Accumulated vacation leave that is expected to be liquidated with expendable available financial resources in the event of termination is reported as an expenditure and a liability of the Governmental Funds that will pay the liability. Amounts of accumulated vacation leave that are not expected to be liquidated are reported in the governmental activities. Accumulated vacation leave of the Proprietary Funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

Fund Balance

The Authority adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Below are the different types of governmental fund balances:

- *Nonspendable* – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form. The “not in spendable form” criteria includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- *Restricted* – The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note A – Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

legislation. Legal enforceability means that the Authority can be compelled by an external party, such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purposes specified by the legislation.

- *Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to the fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. The committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- *Assigned* – Amounts in the assigned fund balance classification are intended to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. In Governmental Funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board, an Authority official delegated that authority by the Board, or by resolution.
- *Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other Governmental Funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

For the fiscal year, the Authority reported unassigned and restricted funds balances.

Note B – Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2012, the Authority complied with budgetary restrictions at all functions.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note C – Deposits and Investments

The monetary assets of the Authority are held in various forms and accounts. These assets are described and presented in the basic financial statements in two groups. One group is described as “Cash and Cash Equivalents.” This group is characterized as having high liquidity with little market risk and includes cash, checking accounts, money market accounts, highly liquid accounts held by investment brokers, and bank time deposits with an original maturity of less than three months. The second group of monetary assets is presented in the basic financial statements as “Investments.” Investments are recorded at fair value. Fair value is based on quoted market prices. Investments, which may be purchased pursuant to Texas state law and the Authority’s bylaws, are direct or indirect obligations of the United States of America, any “A” rated obligation of a state of the United States of America or political subdivision thereof, investment grade repurchase agreements, prime commercial paper rated P-1, obligations of the Federal National Mortgage Association and Government National Mortgage Association, and bank time deposits to the extent collateral is pledged on the amount exceeding Federal Deposit Insurance Corporation (“FDIC”) coverage.

The Authority’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 Authority’s agent bank approved pledged securities in an amount sufficient to protect Authority 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 FDIC insurance.

Cash Deposits

At August 31, 2012, the carrying amount of the Authority’s deposits [cash, certificates of deposit (“CDs”), and interest-bearing savings accounts included in temporary investments] was \$401,191, and the bank balance was \$420,528. The Authority’s cash deposits as of and for the year ended August 31, 2012 were entirely covered by FDIC insurance and/or by pledged collateral held by the Authority’s agent bank in the Authority’s name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First State Bank of Uvalde; Uvalde, Texas.
- b. The market value of securities pledged as of the month-end of the highest combined balance on deposit was \$654,995.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$632,236 and occurred during the month of May.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000. It is the opinion of management that solvency of this financial institution is not of particular concern at this time.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note C – Deposits and Investments (continued)

Investments

The Authority is required by Government Code Chapter 2256, The Public Funds Investment Act (the “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, and (9) bid solicitation preferences for CDs.

The Act determines the types of investments which are allowable for the Authority. These include, with certain restrictions, (1) obligations of the United States Treasury, certain United States agencies, and the state of Texas; (2) CDs; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; and (9) guaranteed investment contracts.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. However, investments issued or explicitly guaranteed by the United States government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As presented below, the Authority’s investments are excluded from this requirement. The investment policy restricts investments to securities which are limited to United States Treasury securities, securities issued or guaranteed by the United States government, or general purpose municipal securities rated “A” or better by a recognized security rating service.

<u>Description</u>	<u>Investment Rating</u>	<u>Rating Organization</u>	<u>Fair Value</u>	<u>Percentage Invested</u>
United States agency notes	Aaa	Moody’s	\$ <u>1,187,830</u>	<u>100%</u>

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note C – Deposits and Investments (continued)

Concentration of Credit Risk

The Authority is required to disclose investments in any one issuer that represents 5% or more of total investments. However, investments issued or explicitly guaranteed by the United States government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The investment policy does not specifically address the concentration of credit risk. The Authority's investments exceeding 5% are excluded from this requirement.

Interest Rate Risk

Changes in market interest rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's policy is to hold its investments to maturity which mitigates interest rate risk. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity as of August 31, 2012:

<u>Description</u>	<u>Years to Maturity</u>	<u>Fair Value</u>	<u>Percentage</u>
United States agency notes	1 year to 2 years	\$ 203,074	17%
	2 years to 3 years	245,453	21%
	3 years to 4 years	252,602	21%
	More than 4 years	<u>486,701</u>	<u>41%</u>
Total investments		<u>\$ 1,187,830</u>	<u>100%</u>

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note D – Contract Receivables and Contract Revenues

Lake Texana Pipeline Project

The Authority is the conduit issuer of the Water Supply Facilities Revenue Bonds, Series 1997, which were used to provide part of the financing of the Lake Texana Pipeline Project (“Lake Texana Project”). In 2005, the Authority, again as conduit issuer, issued additional revenue bonds, Series 2005, to refund a portion of the Series 1997 bonds. The City of Corpus Christi, whose bonds were issued on behalf of, has by contract agreed to the semiannual installment of principal and interest as required to service the debt for the issued bonds noted above. All debt service payments are made by the City of Corpus Christi directly to a trustee bank whose account name is under the Authority.

Other Contracts

The Authority has entered into various contracts to provide services to other governmental entities. All contract revenues and expenses incurred in fulfilling these contracts are reported in the General Fund.

Note E – Changes in Capital Assets

A summary of the changes in the Authority’s capital assets is shown below:

	Balance at August 31, 2011	Additions	Deletions	Balance at August 31, 2012
Land – Leakey	\$ 2,304,622	\$ -	\$ -	\$ 2,304,622
Construction in progress – Leakey	-	299,156		299,156
Furniture and equipment	201,317	7,759	(9,520)	199,556
Leasehold improvements	470	-	-	470
	2,506,409	306,915	(9,520)	2,803,804
Less accumulated depreciation	(182,702)	(7,268)	9,520	(180,450)
	\$ 2,323,707	\$ 299,647	\$ -	\$ 2,623,354

Depreciation expense amounted to \$7,268.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note F – Long-Term Debt

Business-Type Activities

In 1997, the Authority entered into an agreement with the City of Corpus Christi whereby the Authority, as conduit issuer, would issue revenue bonds on behalf of the City of Corpus Christi as part of the financing for construction of a water transmission line referred to as the “Water Supply Facilities Project” or the City of Corpus Christi “Lake Texana Pipeline Project.” Thus, in 1997, the Authority issued revenue bonds (conduit debt) in the amount of \$118,195,000 for this purpose. The bonds and related interest are payable solely from amounts received from the Authority’s contract with the City of Corpus Christi. The Enterprise Fund is used to control and account for the financial activities relating to the contracts and bonded debt of the Lake Texana Pipeline Project. The ultimate operation and maintenance of the Lake Texana Pipeline Project is the responsibility of the City of Corpus Christi. According to the Water Transmission Facilities contract dated November 12, 1996, upon completion of the Lake Texana to Corpus Christi Water Pipeline Project, the Authority was to transfer the deed of ownership to the City of Corpus Christi. The Authority’s approved the transfer at its December 1999 meeting.

In May 2005, the Authority issued (as conduit debt on behalf of City of Corpus Christi) \$94,575,000 of Water Supply Revenue Refunding Bonds (City of Corpus Christi, Lake Texana Pipeline Project), Series 2005, to be used to refund \$92,205,000 of the outstanding Series 1997 bonds which would have matured on 2010 through 2027. The Series 2005 mature serially through March 1, 2027 and bear interest rates from 3.00% to 5.25%. Annual principal payments range from \$100,000 to \$7,545,000 per year with interest due semiannually on January 15 and July 15. The refunding was undertaken to provide gross savings to the City of Corpus Christi in future debt service payments in the amount of \$5,263,801 and a present value savings of \$3,352,249, which results in a net present value benefit of 3.63%. The City of Corpus Christi has pledged revenues from its combined waterworks system, wastewater disposal system, and gas system for payment of these bonds.

<u>Series</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding at August 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding at August 31, 2012</u>	<u>Amount Due Within One Year</u>
Lake Texana: Revenue Bonds: Series 2005	3.00%- 5.25%	\$ 94,575,000	\$ 85,785,000	\$ -	\$ 3,605,000	\$ 82,180,000	\$ 3,785,000

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note F – Long-Term Debt

Business-Type Activities (continued)

Principal and interest requirements for long-term debt of the Authority as of August 31, 2012 are summarized as follows:

Year	Business-Type Activities		
	Principal	Interest	Total
2013	\$ 3,785,000	\$ 4,156,362	\$ 7,941,362
2014	3,975,000	3,967,112	7,942,112
2015	4,175,000	3,768,362	7,943,362
2016	4,380,000	3,559,612	7,939,612
2017	4,610,000	3,329,662	7,939,662
2018-2022	26,900,000	12,795,900	39,695,900
2023-2027	34,355,000	5,178,834	39,533,834
	\$ 82,180,000	\$ 36,755,844	\$ 118,935,844

Governmental Activities

Accrued Compensated Absences

The following is a summary of accrued compensated absences transactions for the year ended August 31, 2012:

	Balance at August 31, 2011	Additions	Deletions	Balance at August 31, 2012
Governmental activities	\$ <u>36,561</u>	\$ <u>29,443</u>	\$ <u>23,981</u>	\$ <u>42,023</u>

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note G – Conduit Debt – Pollution Control Bonds

The Authority has issued Pollution Control Bonds; the bonds were issued to provide financing of pollution control facilities on premises of various corporations. The Authority has entered into agreements that provide for funding of these bonds by the various corporations that use the bond proceeds.

The bonds are special obligations of the Authority, and the principal, any redemption premium, and interest on each bond issue are payable solely from, and secured by, a first lien on the payments of the various corporations in accordance with their agreements with the Authority for each bond issue. The corporations are unconditionally obligated to pay each installment of principal and interest. The bonds provide that there shall be no recourse for payments or for any claim based upon any obligations contained in the various bond agreements against the Authority or against any past, present, or future officer, director, or employee of the Authority.

The Authority has assigned and transferred to specific trustees for each bond issue all payments to be made by the corporations under their agreements. The trustees have agreed to hold all debt service funds and any unexpended bond proceeds, as required by the bond resolutions, and to administer these funds in accordance with the bond resolutions and indentures appointing the trustees. As a result of these agreements, the obligations for these bonds have not been recorded in the financial statements of the Authority.

The bond issues are as follows:

- ASARCO, Inc.; Series 1998 Bonds for \$27,740,000
- ASARCO, Inc.; Series 1998A Bonds for \$22,200,000

Amounts outstanding at August 31, 2012, as reported by fiscal agents that service the various bond issues, are as follows:

- ASARCO, Inc.; Series 1998 Bonds for \$27,740,000
- ASARCO, Inc.; Series 1998A Bonds for \$22,200,000

In 2005, ASARCO, Inc. filed for bankruptcy. However, the Authority has assigned certain rights under the operative documents for the bonds to the trustee for the bonds, including, but not limited to, the right to make claim for, collect and receive payments from ASARCO, Inc. to pay principal of and interest on, the bonds, and the trustee enforces all such rights of payment on behalf of the bondholders. If ASARCO, Inc. does not pay the principal of, or the interest on, the bonds, there is no recourse against the Authority for such payment.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note H – Operating Leases

The Authority has commitments under operating lease agreements as of August 31, 2012 that expire through 2016. These commitments consist of leases for office space at the general office and the Coastal Bend Division locations. The Authority also has a copier lease with the option to purchase the equipment at the expiration of the lease term for its fair market value.

The lease agreements provide for minimum future rental payments as of August 31, 2012 as follows:

<u>Year</u>	<u>General Fund</u>
2013	\$ 45,687
2014	43,599
2015	35,141
2016	<u>25,746</u>
	<u>\$ 150,173</u>

Rental expenditures in 2012 totaled \$44,703 and are included in the General Fund.

Note I – Pension Plans

Defined Contribution Plan

The Authority offers employees the option to participate in a defined contribution plan, governed by Section 401(A) of the Internal Revenue Code (“IRC”) through International City Management Association (“ICMA”) Retirement Corporation. The administrator of the plan is ICMA Employer Services.

Participant contributions are 100% nonforfeitable. Employer contributions are made on a pre-tax basis and are exempt from social security taxes. Employer contributions may be subject to a vesting schedule. Maximum aggregate contributions are the lesser of 25% of participant’s gross compensation, or \$30,000 per year. Mandatory contributions may or may not be required by the employer. The employer may elect a “pick up” provision, whereby mandatory contributions are made on a pre-tax basis. Participants may make voluntary contributions up to 10% of compensation, which are made on an after-tax basis. All earnings accrue on a tax-deferred basis. With this plan, participants may also contribute to a Section 457 plan.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note I – Pension Plans (continued)

Defined Contribution Plan (continued)

Under this plan, each employee of the Authority determines his or her rate of contribution. The Authority makes a matching contribution of up to 7% of the employee's gross wages. For the year ended August 31, 2012, seven employees of the Authority participated in the defined contribution plan. Contribution percentages were 7%. Employee and employer contributions amounted to \$25,722 each. A fund fee of \$1,000 was also paid to ICMA by the Authority.

Deferred Compensation Plan

The employer also has chosen to enroll in a nonqualified supplemental retirement plan governed by Section 457(b) of the IRC. Participation is usually voluntary, with the employee determining the contribution amount. The maximum amount that may be contributed is the lesser of 33¹/₃% of a participant's taxable income, or \$7,500. Contributions are made on a pre-tax basis, and all earnings accrue on a tax-deferred basis. Participants may contribute to a deferred contribution plan in addition to a defined contribution plan and/or defined benefit plan. At this time, there are no participants in this plan.

Note J – Major Revenue Sources

Contracted services revenue of 46%, or \$447,551, was received from two governmental entities.

Note K – Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchased commercial insurance to cover risks associated with potential claims in 2012. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

Nueces River Authority

Notes to Financial Statements

August 31, 2012

Note L – Leakey Capital Project

During fiscal year 2010, the Authority was awarded a grant from the Water Development Board for approximately \$2,200,000. The purpose of the grant was for land acquisition related to a wastewater treatment plant to serve the City of Leakey. During fiscal year 2010, the Authority acquired land for \$2,304,622. During the fiscal year ended August 31, 2012, the Texas Water Development Board approved a resolution of a request from the Authority for \$11,043,460 in financial assistance consisting of a \$9,961,460 loan, with up to 100% principal forgiveness, from the Clean Water State Revolving Fund, and a \$1,082,000 grant from the Economically Distressed Areas Program, to finance planning, acquisition, design, and construction costs for the wastewater treatment plant. Tentatively, the final design and the construction phase are scheduled to begin in fiscal year 2014. The loan funds were placed in a trust account under the name of the Authority, but the Texas Water Development Board holds the rights to those funds and are only disbursed to the Authority as funds are expensed. Therefore, the full amount of the loan is not included in the Authority's financial statements. As of August 31, 2012, the Authority had expenditures of \$318,621 related to this project. The Authority estimates the total project costs to be approximately \$16,200,000. As of August 31, 2012, the Authority does not have any construction commitments. In accordance with Exhibit F – Escrow Agreement of the Loan Forgiveness Agreement (TWDB Contract No. G110033), the proceeds under this contract shall not be considered as a banking deposit of the Authority. Accordingly, these funds have not been recorded in the financial statements of the Authority as of August 31, 2012.

Required Supplemental Information

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Nueces River Authority

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund

Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Contracted services:				
Intergovernmental	\$ 695,317	\$ 695,317	\$ 713,650	\$ 18,333
Public education programs	151,101	151,101	247,741	96,640
Special project	-	-	15,901	15,901
Investment income	51,500	51,500	53,633	2,133
Unrealized loss	-	-	(28,661)	(28,661)
Other income	<u>112,900</u>	<u>112,900</u>	<u>15,982</u>	<u>(96,918)</u>
Total revenues	<u>1,010,818</u>	<u>1,010,818</u>	<u>1,018,246</u>	<u>7,428</u>
Expenditures				
General operations:				
Salaries	468,632	441,632	433,417	8,215
Payroll taxes	35,553	32,949	33,947	(998)
Employee medical insurance	51,936	47,067	50,971	(3,904)
Retirement	33,804	32,182	26,722	5,460
Directors' fees, travel, and meetings	20,300	20,300	10,933	9,367
Travel and conferences	18,500	18,500	17,757	743
Professional fees	129,174	129,174	55,153	74,021
SCRWSPG contributions	2,000	2,000	1,158	842
Telephone and fax	14,576	14,576	14,047	529
Dues, subscriptions, and publications	3,600	3,600	2,540	1,060
Insurance and bonds	7,500	7,500	7,557	(57)
Other government expense	-	-	2,896	(2,896)
Equipment and facilities rent	44,720	44,720	44,703	17
Office supplies and postage and delivery	3,900	3,900	3,251	649
Repairs and maintenance	3,600	3,600	3,373	227
Binding and printing	3,900	3,900	3,823	77
Miscellaneous	1,500	1,500	1,753	(253)
Capital outlay	-	-	6,037	(6,037)
CRP expenses	69,286	69,286	62,258	7,028
Public education programs	78,986	78,986	162,982	(83,996)
SB1 expenses	2,500	2,500	13,404	(10,904)
Aransas Creek	6,824	6,824	2,814	4,010
Source water protection	6,000	6,000	27,377	(21,377)
Property expenses	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Total expenditures	<u>1,006,791</u>	<u>978,696</u>	<u>988,873</u>	<u>(10,177)</u>
Excess of revenues over expenditures	4,027	32,122	29,373	(2,749)
Fund balance at beginning of year	<u>1,710,722</u>	<u>1,710,722</u>	<u>1,710,722</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,714,749</u>	<u>\$ 1,742,844</u>	<u>\$ 1,740,095</u>	<u>\$ (2,749)</u>

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Other Supplemental Information

Nueces River Authority

Debt Service Requirements – Series 2005 Bonds Lake Texana Pipeline Project – Enterprise Fund

August 31, 2012

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
January 15, 2013	\$ -	\$ 2,078,181	\$ 2,078,181
July 15, 2013	3,785,000	2,078,181	5,863,181
January 15, 2014	-	1,983,556	1,983,556
July 15, 2014	3,975,000	1,983,556	5,958,556
January 15, 2015	-	1,884,181	1,884,181
July 15, 2015	4,175,000	1,884,181	6,059,181
January 15, 2016	-	1,779,806	1,779,806
July 15, 2016	4,380,000	1,779,806	6,159,806
January 15, 2017	-	1,664,831	1,664,831
July 15, 2017	4,610,000	1,664,831	6,274,831
January 15, 2018	-	1,543,819	1,543,819
July 15, 2018	4,850,000	1,543,819	6,393,819
January 15, 2019	-	1,416,506	1,416,506
July 15, 2019	5,105,000	1,416,506	6,521,506
January 15, 2020	-	1,282,500	1,282,500
July 15, 2020	5,375,000	1,282,500	6,657,500
January 15, 2021	-	1,148,125	1,148,125
July 15, 2021	5,645,000	1,148,125	6,793,125
January 15, 2022	-	1,007,000	1,007,000
July 15, 2022	5,925,000	1,007,000	6,932,000
January 15, 2023	-	858,875	858,875
July 15, 2023	6,220,000	858,875	7,078,875
January 15, 2024	-	703,375	703,375
July 15, 2024	6,530,000	703,375	7,233,375
January 15, 2025	-	540,125	540,125
July 15, 2025	6,860,000	540,125	7,400,125
January 15, 2026	-	368,625	368,625
July 15, 2026	7,200,000	368,625	7,568,625
January 15, 2027	-	188,625	188,625
March 1, 2027	7,545,000	48,209	7,593,209
	<u>\$ 82,180,000</u>	<u>\$ 36,755,844</u>	<u>\$ 118,935,844</u>

Nueces River Authority

Schedule of Pollution Control Bonds Issued and Outstanding

August 31, 2012

Corporations for which the Authority's pollution control revenue bonds were issued are listed below, with each series of bonds shown separately. As explained in Note G to the Authority's audited financial statements, the Authority does not have a direct or indirect liability for payments on these bonds.

<u>Corporation – Bond Issue</u>	<u>Total Issued</u>
ASARCO, Inc.:	
Series 1998 Bonds – issued January 1, 1998; final maturity due January 1, 2027; interest at 5.6%	\$ 27,740,000
Series 1998A Bonds – issued October 1, 1998; final maturity due April 1, 2018; interest at 5.6%	<u>22,200,000</u>
	<u>\$ 49,940,000</u>

Nueces River Authority

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended August 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues					
Contracted services:					
Intergovernmental	\$ 713,650	\$ 727,888	\$ 965,695	\$ 951,380	\$ 809,732
Public education programs	247,741	360,076	124,515	147,676	82,714
Special project	15,901	-	-	290,372	-
Investment income	53,633	57,079	53,905	65,086	70,095
Unrealized gain (loss)	(28,661)	(841)	33,703	46,253	28,259
Other income	15,982	13,715	23,879	17,809	23,920
Total revenues	<u>1,018,246</u>	<u>1,157,917</u>	<u>1,201,697</u>	<u>1,518,576</u>	<u>1,014,720</u>
Expenditures					
General operations:					
Salaries	433,417	473,192	414,154	410,561	384,470
Payroll taxes	33,947	37,108	32,404	31,432	28,980
Employee medical insurance	50,971	45,428	35,503	35,503	34,517
Retirement	26,722	30,584	29,722	29,232	24,446
Directors' fees, travel, and meetings	10,933	16,504	18,449	18,925	9,903
Travel and conferences	17,757	22,055	24,220	23,037	16,884
Professional fees	55,153	71,912	303,282	366,720	238,592
SCRWSPG contributions	1,158	1,326	1,349	5,627	5,686
Telephone and fax	14,047	14,398	13,198	9,341	6,079
Dues, subscriptions, and publications	2,540	4,411	4,796	4,712	2,716
Insurance and bonds and legal notices	10,453	11,630	8,573	6,906	7,810
Equipment and facilities rent	44,703	42,341	42,902	38,554	30,950
Office supplies and postage and delivery	3,251	4,675	5,836	4,528	8,168
Repairs and maintenance	3,373	2,378	2,782	2,981	2,907
Binding and printing	3,823	3,386	2,325	4,518	623
Miscellaneous	1,753	6,339	3,197	5,554	2,482
Capital outlay	6,037	588	5,335	8,280	2,266
CRP expenses	62,258	73,955	70,316	78,772	62,567
TSSWCB expenses	-	-	-	-	4,160
Copano Bay sampling	-	42,033	81,446	26,522	57,654
Public education programs	162,982	293,041	60,751	88,239	40,380
Leakey Special Project expenses	-	-	-	289,178	-
SB1 expenses	13,404	1,886	649	-	-
Arroyo Colorado expenses	-	460	14,052	-	-
Aransas Creek	2,814	1,801	-	-	-
Source water protection	27,377	7,260	-	-	-
Watermaster fees	-	-	15,007	-	-
Total expenditures	<u>988,873</u>	<u>1,208,691</u>	<u>1,190,248</u>	<u>1,489,122</u>	<u>972,240</u>
Excess (deficiency) of revenues over (under) expenditures	29,373	(50,774)	11,449	29,454	42,480
Fund balance at beginning of year	<u>1,710,722</u>	<u>1,761,496</u>	<u>1,750,047</u>	<u>1,720,593</u>	<u>1,678,113</u>
Fund balance at end of year	<u>\$ 1,740,095</u>	<u>\$ 1,710,722</u>	<u>\$ 1,761,496</u>	<u>\$ 1,750,047</u>	<u>\$ 1,720,593</u>

Nueces River Authority

Insurance Coverage – Unaudited

August 31, 2012

<u>Type of Coverage</u>	<u>Insurer</u>			
	<u>Amount of Coverage</u>	<u>Name</u>	<u>Type of Corporation Stock/Mutual</u>	<u>Policy Clause – Co-Insurance</u>
Workers' Compensation	N/A	Texas Water Conservation Association	Risk Management Fund	No
Automobile Liability	\$ 10,000,000	Texas Water Conservation Association	Risk Management Fund	No
Short-Term Rental Vehicle	\$ 35,000	Texas Water Conservation Association	Risk Management Fund	No
Auto Physical Damage	Actual Value	Texas Water Conservation Association	Risk Management Fund	No
General Liability*	\$ 10,000,000	Texas Water Conservation Association	Risk Management Fund	No
Errors and Omissions	\$ 10,000,000	Texas Water Conservation Association	Risk Management Fund	No
Legal Defense for Breach of Contract Endorsement	\$ 50,000	Texas Water Conservation Association	Risk Management Fund	No
Punitive Damages Coverage Endorsement	\$ 100,000	Texas Water Conservation Association	Risk Management Fund	No
Property Coverage	\$ 507,477	Texas Water Conservation Association	Risk Management Fund	No
Public Official Bond – Board Members	\$ 10,000	Colonial American Casualty and Surety Company	Stock	No
Commercial Crime Policy	\$ 25,000	Colonial American Casualty and Surety Company	Stock	No

FSA Debt Service Insurance Policy \$127,094 held by Trustee Bank, Wells Fargo, Policy #204706-R
 Financial SEC Assurance Municipal Bond \$280,357 held by Trustee Bank, Wells Fargo, Insurance Policy #204706-N

*Includes contractors exposure basis of \$6,000,000.

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PS&Co.

Padgett Stratemann

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

TOLL FREE 800 879 4966

Padgett-CPA.com