

Nueces River Authority
Annual Financial Report
For the Year Ended August 31, 2013

Nueces River Authority

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Independent Auditor's Report

To the Board of Directors
Nueces River Authority
Uvalde, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Nueces River Authority (the "Authority") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 and each major fund of the Authority as of August 31, 2013, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A, the Authority was required to adopt Governmental Accounting Standards Board ("GASB") No. 61, *Financial Reporting Entity: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The adoption of GASB Statements No. 61, 62, and 63 did not have an effect on the Authority's previously reported net position.

Other Matters

Required Supplementary Information

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 7 through 13 and page 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Comparative Schedule of Revenues and Expenditures – General Fund and Insurance Coverage – Unaudited are presented for purposes of additional analysis and are not a required part of the financial statements. The Comparative Schedule of Revenues and Expenditures – General Fund is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the

basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Schedule of Revenues and Expenditures – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The Insurance Coverage – Unaudited schedule has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Padgett Stietmann & Co LLP

Certified Public Accountants

San Antonio, Texas

November 26, 2013

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Nueces River Authority

Management's Discussion and Analysis

August 31, 2013

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, 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

Government-Wide Highlights

- Net position – The assets of the Authority exceeded its liabilities at August 31, 2013 by \$4,487,229. Of this amount, \$1,677,889 was reported as "unrestricted." Unrestricted net position represents the amount available to be used to meet the Authority's ongoing obligations.
- Changes in net position – The Authority's total net position increased by \$162,215 in fiscal year 2013. The increase is due to a slight increase in intergovernmental and public education programs income and a reduction in operating expenses, due to the capitalization of current year capital outlays in the Leakey Capital Project Fund.

Fund Statement Highlights

- Fund balance – As of the close of fiscal year 2013, the Authority's Governmental Funds reported a combined ending fund balance of \$1,717,336, a decrease of \$26,347 from last year. The decrease is due to an increase in operating expenses, due to several new 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, 2013

(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 position 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 position* and how they have changed. Net position – the difference between the Authority's assets and liabilities – is one way to measure the Authority's financial health or *position*.

- Over time, increases or decreases in the Authority's net position 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, 2013

(Continued)

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 balances 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.

Notes to the 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, 2013

(Continued)

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Authority's combined net position totaled \$4,487,229 at the end of 2013 (see Table A-1).

There is \$2,809,340 of net investments in capital assets. Further, \$1,677,889 represents unrestricted net position, which may be used to meet the Authority's ongoing obligations. Internally imposed designations of resources are not presented as restricted net position.

**Table A-1
Net Position Information**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Current and other assets	\$ 1,862,647	\$ 1,852,464	0.55%
Capital and noncurrent assets	<u>2,809,340</u>	<u>2,623,354</u>	7.09%
Total assets	<u>\$ 4,671,987</u>	<u>\$ 4,475,818</u>	4.38%
Current liabilities	\$ 145,311	\$ 108,781	33.58%
Long-term liabilities	<u>39,447</u>	<u>42,023</u>	(6.13%)
Total liabilities	<u>\$ 184,758</u>	<u>\$ 150,804</u>	22.52%
Net position:			
Net investments in capital assets	\$ 2,809,340	\$ 2,623,354	7.09%
Restricted	-	3,588	(100.00%)
Unrestricted	<u>1,677,889</u>	<u>1,698,072</u>	(1.19%)
Total net position	<u>\$ 4,487,229</u>	<u>\$ 4,325,014</u>	3.75%

Changes in Net Position

- The Authority's net position increased by \$162,215, or 3.75% (see Table A-2). The increase is due to a reduction in operating expenses, due to the capitalization of current year capital outlays in the Leakey Capital Project Fund.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2013

(Continued)

Table A-2
Information About Changes in Net Position

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2013</u>	<u>2012</u>	<u>Total</u>
Revenues			
Program revenues	\$ 1,229,697	\$ 1,280,012	(3.93%)
General revenues	<u>4,563</u>	<u>40,954</u>	(88.86%)
Total revenues	1,234,260	1,320,966	(6.56%)
Expenses	<u>1,072,045</u>	<u>993,820</u>	7.87%
Change in net position	162,215	327,146	(50.42%)
Net position at beginning of year	<u>4,325,014</u>	<u>3,997,868</u>	8.18%
Net position at end of year	\$ <u>4,487,229</u>	\$ <u>4,325,014</u>	3.75%

The Authority's total program revenues were \$1,229,697, which is a decrease of \$50,315 compared to 2012. This decrease is due to a reduction in 2013 special project revenue on a grant related to the Leakey Wastewater Facility received in 2012. Approximately 39.62% of the Authority's program revenues came from charges for services, with 44.89% from operating grants and contributions, and the remaining 15.48% from capital grants and contributions.

The Authority's expenses totaled \$1,072,045, which is an increase of \$78,225 compared to 2012. The increase in expense compared to 2012 is primarily due to several new contracts in 2013. The Authority's expenses include \$35,091 in depreciation expense on capital assets. The other four large expense items included salaries, in the amount of \$456,096; public education programs fees, in the amount of \$176,146; Clean River Program expenses, in the amount of \$78,159; and professional fees, in the amount of \$96,010.

Program revenues at year-end were \$1,229,697. This consisted mainly of \$786,818 in intergovernmental contracted services and \$252,490 in public education programs contracted services. In fiscal year 2012, the Authority received \$190,389 in financial assistance from the Texas Water Development Board for the wastewater treatment plant to serve the City of Leakey.

Nueces River Authority

Management's Discussion and Analysis

August 31, 2013

(Continued)

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 \$1,717,336, a decrease of \$26,347 in comparison with the prior year.

General Fund Budgetary Highlights

Over the course of the year, the Authority revised its budget. The Authority had an original budget of \$1,864,541 and final budget of \$1,757,316, ending the year with \$1,066,630 in actual costs.

Capital Assets and Debt Administration

Capital Assets

At August 31, 2013, capital assets approximated 60.13% of total assets in the governmental activities. The \$2,809,340 in capital assets, net of accumulated depreciation, is primarily land, construction in progress, office furniture, and equipment.

Long-Term Debt

At year-end, the Authority had \$39,447 in accrued compensated absences, a decrease of \$2,576 from 2012. More detailed information about the Authority's debt is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

During fiscal year 2010, the Authority was awarded a grant from the Texas 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 2012, the Texas Water Development Board approved a resolution of a request from the Authority

Nueces River Authority

Management's Discussion and Analysis

August 31, 2013

(Continued)

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 2015. 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 they are only to be disbursed to the Authority as funds are expensed. Therefore, the full amount of the loan is not included in the Authority's financial statements. During the fiscal year ending August 31, 2013, the Authority had expenditures of \$193,977 related to this project. The Authority estimates the total project costs to be approximately \$16,200,000. As of August 31, 2013, 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, 2013.

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 2013.

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.

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Basic Financial Statements

Nueces River Authority

Statement of Net Position

August 31, 2013

ASSETS	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 421,702
Investments	1,229,686
Prepaid expenses	200
Receivables:	
Contract	190,935
Accrued interest	20,124
	<hr/>
Total current assets	1,862,647
	<hr/>
Capital assets:	
Land – Leakey	2,304,622
Construction in progress – Leakey	493,133
Furniture and equipment	136,437
Less accumulated depreciation	(124,852)
	<hr/>
Total capital assets – net of accumulated depreciation	2,809,340
	<hr/>
Total assets	\$ 4,671,987
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The accompanying notes are an integral part of this statement.

LIABILITIES AND NET POSITION	Governmental Activities
Liabilities	
Current liabilities:	
Accounts payable	\$ 46,103
Deferred revenue	<u>99,208</u>
Total current liabilities	145,311
Noncurrent liabilities:	
Accrued compensated absences	<u>39,447</u>
Total liabilities	<u>\$ 184,758</u>
 Net Position	
Net investments in capital assets	\$ 2,809,340
Unrestricted	<u>1,677,889</u>
Total net position	<u>\$ 4,487,229</u>

Nueces River Authority

Statement of Activities

Year Ended August 31, 2013

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Contracted services:					
General operations	\$ <u>1,072,045</u>	\$ <u>487,245</u>	\$ <u>552,063</u>	\$ <u>190,389</u>	\$ <u>157,652</u>
Total governmental activities	\$ <u><u>1,072,045</u></u>	\$ <u><u>487,245</u></u>	\$ <u><u>552,063</u></u>	\$ <u><u>190,389</u></u>	<u>157,652</u>
General revenues:					
Investment loss					(10,482)
Other income					<u>15,045</u>
Total general revenues					<u>4,563</u>
Change in net position					162,215
Net position at beginning of year					<u>4,325,014</u>
Net position at end of year					\$ <u><u>4,487,229</u></u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Balance Sheet – Governmental Funds

August 31, 2013

ASSETS	<u>General Fund</u>	<u>Leakey Capital Project Fund</u>	<u>Total Governmental Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 421,613	\$ 89	\$ 421,702
Investments	1,229,686	-	1,229,686
Prepaid expenses	200	-	200
Receivables:			
Contract	182,734	8,201	190,935
Accrued interest	20,124	-	20,124
Due from Capital Project Fund	8,201	-	8,201
Total current assets	<u>1,862,558</u>	<u>8,290</u>	<u>1,870,848</u>
Total assets	<u>\$ 1,862,558</u>	<u>\$ 8,290</u>	<u>\$ 1,870,848</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Current liabilities:			
Accounts payable	\$ 46,103	\$ -	\$ 46,103
Deferred revenue	99,119	89	99,208
Due to General Fund	-	8,201	8,201
Total liabilities	<u>145,222</u>	<u>8,290</u>	<u>153,512</u>
Fund Balances			
Unassigned	<u>1,717,336</u>	<u>-</u>	<u>1,717,336</u>
Total fund balances	<u>1,717,336</u>	<u>-</u>	<u>1,717,336</u>
Total liabilities and fund balances	<u>\$ 1,862,558</u>	<u>\$ 8,290</u>	<u>\$ 1,870,848</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 Position**

Year Ended August 31, 2013

Total fund balances – Governmental Funds balance sheet	\$ 1,717,336
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, are used in governmental activities, but are not reported in the funds	2,809,340
Payables for accrued compensated absences, which are not due in the current period, are not reported in the funds	<u>(39,447)</u>
Net position of governmental activities – statement of net position	\$ <u>4,487,229</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

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

Year Ended August 31, 2013

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
Revenues			
Contracted services:			
Intergovernmental	\$ 786,818	\$ -	\$ 786,818
Public education programs	252,490	-	252,490
Special project	-	190,389	190,389
Investment income	50,401	-	50,401
Unrealized loss	(60,883)	-	(60,883)
Other income	15,045	-	15,045
	<u>1,043,871</u>	<u>190,389</u>	<u>1,234,260</u>
Expenditures			
General operations:			
Salaries	456,096	-	456,096
Payroll taxes	35,673	-	35,673
Employee medical insurance	49,031	-	49,031
Retirement	31,004	-	31,004
Directors' fees, travel, and meetings	17,431	-	17,431
Travel and conferences	17,864	-	17,864
Professional fees	96,010	-	96,010
SCRWSPG contributions	484	-	484
Edwards Aquifer RIP	1,000	-	1,000
Telephone and fax	12,269	-	12,269
Dues, subscriptions, and publications	2,614	-	2,614
Insurance and bonds	7,361	-	7,361
Other government expense	938	-	938
Equipment and facilities rent	41,667	-	41,667
Office supplies and postage and delivery	8,374	-	8,374
Repairs and maintenance	437	-	437
Binding and printing	4,643	-	4,643
Miscellaneous	5,930	-	5,930
Capital outlay	-	193,977	193,977
CRP expenses	78,159	-	78,159
Public education programs	176,146	-	176,146
SB1 expenses	1,920	-	1,920
Aransas Creek	6,013	-	6,013
Texas State Soil and Water Conservation Board	4,084	-	4,084
Coastal Bend Bays & Estuaries Program	6,497	-	6,497
Petronila Creek	2,577	-	2,577
Source water protection	2,408	-	2,408
	<u>1,066,630</u>	<u>193,977</u>	<u>1,260,607</u>
Total expenditures			
Deficiency of revenues under expenditures	(22,759)	(3,588)	(26,347)
Fund balances at beginning of year	<u>1,740,095</u>	<u>3,588</u>	<u>1,743,683</u>
Fund balances at end of year	<u>\$ 1,717,336</u>	<u>\$ -</u>	<u>\$ 1,717,336</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, 2013

Net change in fund balances – total Governmental Funds	\$ (26,347)
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	239,055
Depreciation of capital assets is used in governmental activities, but is not reported in the funds	(35,091)
Loss on disposal of capital assets is used in governmental activities, but is not reported in the funds	(17,978)
Net change in accrued compensated absences	<u>2,576</u>
Change in net position of governmental activities – statement of activities	<u>\$ 162,215</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

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 (“GAAP”), financial statements should present the government and its component units, entities 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”) Codification Section 2100, *Defining the Financial Reporting Entity*, 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 Codification Section 2100, *Defining the Financial Reporting Entity*, no legally separate organizations met the necessary criteria for inclusion as component units in the basic financial statements.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note A – Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

In 2013, the Authority implemented the following new GASB pronouncements:

The Authority adopted GASB Statement No. 61, *Financial Reporting Entity: Omnibus*. The objective of this statement is to amend GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, in order to better meet user needs and to address reporting issues that have arisen since the issuance of those statements. Specifically, this statement modifies previously existing requirements for the assessment of potential component units of a financial reporting entity. No changes in the reporting entity of the Authority were identified as a result of the guidance provided in this statement.

The Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued prior to November 30, 1989 by the Financial Accounting Standards Board, the Accounting Principles Board, and the American Institute of Certified Public Accountants. Prior to the issuance of this statement, the Authority applied the pronouncements codified in this statement and, therefore, the implementation of this statement had no impact on the Authority in 2013.

The Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The Authority’s statement of net position at August 31, 2013 has been presented in accordance with the guidance provided by this statement.

Government-Wide Financial Statements

The statement of net position 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. In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note A – Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements (continued)

The statement of activities presents a comparison between direct expenses and program revenues 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. An emphasis is placed on major funds within the Authority.

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 Fund 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 Fund are at least 5% of the corresponding total for all governmental and business-type activities combined

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

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 on determination of financial position and changes in financial position, rather than on 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.

Measurement Focus and Basis of Accounting

The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note A – Summary of Significant Accounting Policies (continued)

Net Position

Net position represents the difference between assets and liabilities. Net investments in capital assets, 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

Capital Assets

Capital assets, which include land, furniture, and equipment, are reported in the governmental activities column of the government-wide financial statements. Donated capital assets are valued at their estimated fair value on the date received.

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 position. 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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note A – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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.

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 GAAP 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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note A – Summary of Significant Accounting Policies (continued)

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 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 only reported unassigned fund balances.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note B – Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2013, the Authority complied with budgetary restrictions at all functions.

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, 2013, the carrying amount of the Authority’s deposits [cash, certificates of deposit (“CDs”), and interest-bearing savings accounts included in temporary investments] was \$421,702, and the bank balance was \$433,100. The Authority’s cash deposits as of and for the year ended August 31, 2013 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 \$644,058.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note C – Deposits and Investments (continued)

Cash Deposits (continued)

- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$473,869 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.

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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note C – Deposits and Investments (continued)

Credit Risk (continued)

<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>1,229,686</u>	<u>100%</u>

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 the effect of 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, 2013:

<u>Description</u>	<u>Years to Maturity</u>	<u>Fair Value</u>	<u>Percentage</u>
United States agency notes	1 year to 2 years	\$ 366,909	30%
	2 years to 3 years	110,351	9%
	3 years to 4 years	194,099	16%
	More than 4 years	<u>558,327</u>	<u>45%</u>
Total investments		<u>\$ 1,229,686</u>	<u>100%</u>

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note D – Contract Receivables and Contract Revenues

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, 2012	Additions	Deletions	Balance at August 31, 2013
Land – Leakey	\$ 2,304,622	\$ -	\$ -	\$ 2,304,622
Construction in progress – Leakey	299,156	193,977	-	493,133
Furniture and equipment	199,556	45,078	(108,197)	136,437
Leasehold improvements	470	-	(470)	-
	2,803,804	239,055	(108,667)	2,934,192
Less accumulated depreciation	(180,450)	(35,091)	90,689	(124,852)
	\$ 2,623,354	\$ 203,964	\$ (17,978)	\$ 2,809,340

Depreciation expense amounted to \$35,091.

Note F – Long-Term Debt

Accrued Compensated Absences

The following is a summary of accrued compensated absences transactions for the year ended August 31, 2013:

	Balance at August 31, 2012	Additions	Deletions	Balance at August 31, 2013
Governmental activities	\$ 42,023	\$ 32,244	\$ 34,820	\$ 39,447

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note G – Conduit Debt – *Lake Texana Pipeline Project*

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 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 in 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.

Accordingly, the Authority is under no obligation to pay this debt and, therefore, it is not reflected in the financial statements. The outstanding conduit debt balance is \$78,395,000.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note H – Operating Leases

The Authority has commitments under operating lease agreements as of August 31, 2013 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, 2013 as follows:

<u>Year</u>	<u>General Fund</u>
2014	\$ 42,565
2015	32,931
2016	<u>25,746</u>
	<u>\$ 101,242</u>

Rental expenditures in 2013 totaled \$41,667 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.

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, 2013, seven employees of the Authority participated in the defined contribution plan. Contribution percentages were 7%. Employee and employer contributions amounted to \$26,713 each. A fund fee of \$1,000 was also paid to ICMA by the Authority.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note I – Pension Plans (continued)

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 voluntary, with the employee determining the contribution amount. The maximum amount that may be contributed is the lesser of $33\frac{1}{3}\%$ 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 48%, or \$499,573, 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 2013. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

Note L – Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority, but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Authority or unasserted claims that may result in such proceedings, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Nueces River Authority

Notes to the Financial Statements

August 31, 2013

Note L – Contingencies (continued)

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management has assessed current conditions and believes there are no such contingencies as of August 31, 2013.

Note M – Leakey Capital Project

During fiscal year 2010, the Authority was awarded a grant from the Texas 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 and 2015, respectively. 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 they are only to be disbursed to the Authority as funds are expensed. Therefore, the full amount of the loan is not included in the Authority's financial statements. During the year ended August 31, 2013, the Authority had expenditures of \$193,977 related to this project. The Authority estimates the total project costs to be approximately \$16,200,000. As of August 31, 2013, 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, 2013.

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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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Contracted services:				
Intergovernmental	\$ 774,202	\$ 791,728	\$ 786,818	\$ (4,910)
Public education programs	345,907	249,478	252,490	3,012
Special project	590,500	590,500	-	(590,500)
Investment income	51,000	51,000	50,401	(599)
Unrealized loss	-	-	(60,883)	(60,883)
Other income	<u>115,000</u>	<u>115,000</u>	<u>15,045</u>	<u>(99,955)</u>
Total revenues	<u>1,876,609</u>	<u>1,797,706</u>	<u>1,043,871</u>	<u>(753,835)</u>
Expenditures				
General operations:				
Salaries	471,759	456,159	456,096	63
Payroll taxes	36,986	33,917	35,673	(1,756)
Employee medical insurance	51,665	49,639	49,031	608
Retirement	31,531	31,531	31,004	527
Directors' fees, travel, and meetings	20,300	19,700	17,431	2,269
Travel and conferences	19,000	19,000	17,864	1,136
Professional fees	107,507	109,507	96,010	13,497
SCRWSPG contributions	1,000	1,000	484	516
Edwards Aquifer RIP	1,000	1,000	1,000	-
Telephone and fax	15,432	12,632	12,269	363
Dues, subscriptions, and publications	2,600	2,600	2,614	(14)
Insurance and bonds	8,000	8,000	7,361	639
Other government expense	-	-	938	(938)
Equipment and facilities rent	41,643	41,667	41,667	-
Office supplies and postage and delivery	7,100	7,100	8,374	(1,274)
Repairs and maintenance	600	600	437	163
Binding and printing	3,900	3,900	4,643	(743)
Miscellaneous	1,500	1,500	5,930	(4,430)
Capital outlay	602,700	602,700	-	602,700
CRP expenses	76,544	79,456	78,159	1,297
Public education programs	251,084	159,241	176,146	(16,905)
SB1 expenses	2,500	2,500	1,920	580
Aransas Creek	3,128	6,528	6,013	515
Texas State Soil and Water Conservation Board	95,520	95,520	4,084	91,436
Coastal Bend Bays & Estuaries Program	9,042	9,042	6,497	2,545
Petronila Creek	-	377	2,577	(2,200)
Source water protection	<u>2,500</u>	<u>2,500</u>	<u>2,408</u>	<u>92</u>
Total expenditures	<u>1,864,541</u>	<u>1,757,316</u>	<u>1,066,630</u>	<u>690,686</u>
Excess (deficiency) of revenues over (under) expenditures	12,068	40,390	(22,759)	(63,149)
Fund balance at beginning of year	<u>1,740,095</u>	<u>1,740,095</u>	<u>1,740,095</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,752,163</u>	<u>\$ 1,780,485</u>	<u>\$ 1,717,336</u>	<u>\$ (63,149)</u>

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Other Supplemental Information

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Nueces River Authority

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended August 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues					
Contracted services:					
Intergovernmental	\$ 786,818	\$ 713,650	\$ 727,888	\$ 965,695	\$ 951,380
Public education programs	252,490	247,741	360,076	124,515	147,676
Special project	-	15,901	-	-	290,372
Investment income	50,401	53,633	57,079	53,905	65,086
Unrealized gain (loss)	(60,883)	(28,661)	(841)	33,703	46,253
Other income	<u>15,045</u>	<u>15,982</u>	<u>13,715</u>	<u>23,879</u>	<u>17,809</u>
Total revenues	<u>1,043,871</u>	<u>1,018,246</u>	<u>1,157,917</u>	<u>1,201,697</u>	<u>1,518,576</u>
Expenditures					
General operations:					
Salaries	456,096	433,417	473,192	414,154	410,561
Payroll taxes	35,673	33,947	37,108	32,404	31,432
Employee medical insurance	49,031	50,971	45,428	35,503	35,503
Retirement	31,004	26,722	30,584	29,722	29,232
Directors' fees, travel, and meetings	17,431	10,933	16,504	18,449	18,925
Travel and conferences	17,864	17,757	22,055	24,220	23,037
Professional fees	96,010	55,153	71,912	303,282	366,720
SCRWSPG contributions	484	1,158	1,326	1,349	5,627
Telephone and fax	12,269	14,047	14,398	13,198	9,341
Dues, subscriptions, and publications	2,614	2,540	4,411	4,796	4,712
Insurance, bonds, and legal notices	8,299	10,453	11,630	8,573	6,906
Equipment and facilities rent	41,667	44,703	42,341	42,902	38,554
Office supplies and postage and delivery	8,374	3,251	4,675	5,836	4,528
Repairs and maintenance	437	3,373	2,378	2,782	2,981
Binding and printing	4,643	3,823	3,386	2,325	4,518
Miscellaneous	5,930	1,753	6,339	3,197	5,554
Capital outlay	-	6,037	588	5,335	8,280
CRP expenses	78,159	62,258	73,955	70,316	78,772
Copano Bay sampling	-	-	42,033	81,446	26,522
Public education programs	176,146	162,982	293,041	60,751	88,239
Leakey Special Project expenses	-	-	-	-	289,178
SB1 expenses	1,920	13,404	1,886	649	-
Arroyo Colorado expenses	-	-	460	14,052	-
Aransas Creek	6,013	2,814	1,801	-	-
Texas State Soil and Water Conservation Board	4,084	-	-	-	-
Coastal Bend Bays & Estuaries Program	6,497	-	-	-	-
Petronila Creek	2,577	-	-	-	-
Source water protection	2,408	27,377	7,260	-	-
Watermaster fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,007</u>	<u>-</u>
Total expenditures	<u>1,065,630</u>	<u>988,873</u>	<u>1,208,691</u>	<u>1,190,248</u>	<u>1,489,122</u>
Excess (deficiency) of revenues over (under) expenditures	(21,759)	29,373	(50,774)	11,449	29,454
Fund balance at beginning 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>
Fund balance at end of year	<u>\$ 1,718,336</u>	<u>\$ 1,740,095</u>	<u>\$ 1,710,722</u>	<u>\$ 1,761,496</u>	<u>\$ 1,750,047</u>

Nueces River Authority

Insurance Coverage – Unaudited

August 31, 2013

<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	Fidelity and Deposit Company of Maryland	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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