

Nueces River Authority

Annual Financial Report

For the Year Ended August 31, 2015

Nueces River Authority

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Notes to the Financial Statements	21
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund	37
Other Supplementary Information	
Comparative Schedule of Revenues and Expenditures – General Fund	41
Insurance Coverage – Unaudited	42

Nueces River Authority

Table of Contents – Continued

	Page
Federal Awards Section	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	45
Independent Auditor’s Report on Compliance for a Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133	47
Schedule of Findings and Questioned Costs	49
Schedule of Expenditures of Federal Awards	50
Note to the Schedule of Expenditures of Federal Awards	51



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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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund on pages 5 through 11 and page 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary 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, Insurance Coverage – Unaudited, and Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Schedule of Revenues and Expenditures – General Fund and Schedule of Expenditures of Federal Awards are 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas
December 3, 2015

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Nueces River Authority

Management's Discussion and Analysis

August 31, 2015

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, 2015. 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, 2015 by \$5,600,239. Of this amount, \$1,690,180 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 \$644,966 in fiscal year 2015. The increase is primarily attributable to grant revenues received from the Leakey Capital Project Fund.

Fund Statement Highlights

- Fund balance – As of the close of fiscal year 2015, the Authority's Governmental Funds reported a combined ending fund balance of \$1,723,353, an increase of \$2,415 from last year. The increase is due to a lower net decrease in fair value of investments.

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 supplementary 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.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Nueces River Authority

Management's Discussion and Analysis – Continued

August 31, 2015

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*. All 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.

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.

Nueces River Authority

Management's Discussion and Analysis – Continued

August 31, 2015

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 Supplementary Information

The basic financial statements are followed by a section of required supplementary 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.

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 \$5,600,239 at the end of 2015 (see Table A-1).

There is \$3,910,059 of investment in capital assets. Further, \$1,690,180 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.

Nueces River Authority

Management's Discussion and Analysis – Continued

August 31, 2015

**Table A-1
Net Position Information**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2014</u>	
Current and other assets	\$ 1,894,855	\$ 2,123,918	(10.78%)
Capital assets	<u>3,910,059</u>	<u>3,263,155</u>	19.82%
Total assets	<u>\$ 5,804,914</u>	<u>\$ 5,387,073</u>	7.76%
Current liabilities	\$ 171,502	\$ 402,980	(57.44%)
Long-term liabilities	<u>33,173</u>	<u>28,820</u>	15.10%
Total liabilities	<u>\$ 204,675</u>	<u>\$ 431,800</u>	(52.60%)
Net position:			
Investments in capital assets	\$ 3,910,059	\$ 3,263,155	19.82%
Unrestricted	<u>1,690,180</u>	<u>1,692,118</u>	(0.11%)
Total net position	<u>\$ 5,600,239</u>	<u>\$ 4,955,273</u>	13.02%

Changes in Net Position

- The Authority's net position increased by \$644,966, or 13.02% (see Table A-2). The increase is primarily attributable to grant revenues received from the Leakey Capital Project Fund.

Nueces River Authority

Management's Discussion and Analysis – Continued

August 31, 2015

**Table A-2
Information About Changes in Net Position**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2014</u>	
Revenues			
Program revenues:			
Charges for services	\$ 731,824	\$ 507,107	44.31%
Operating grants and contributions	643,911	551,384	16.78%
Capital grants and contributions	712,260	401,341	77.47%
General revenues:			
Investment income	20,108	25,081	(19.83%)
Other income	3,000	4,500	(33.33%)
Total revenues	2,111,103	1,489,413	41.74%
Expenses	<u>1,466,137</u>	<u>1,081,674</u>	35.54%
Change in net position	644,966	407,739	58.18%
Net position at beginning of year	<u>4,955,273</u>	<u>4,547,534</u>	8.97%
Net position at end of year	<u>\$ 5,600,239</u>	<u>\$ 4,955,273</u>	13.02%

The Authority's total program revenues were \$2,087,995, which is an increase of \$628,163 compared to 2014. This increase is due to increased construction activity at the Leakey Wastewater Facility, which is reimbursed by capital grants. Approximately 35.05% of the Authority's program revenues came from charges for services, with 30.84% from operating grants and contributions, and the remaining 34.11% from capital grants and contributions.

The Authority's expenses totaled \$1,466,137, which is an increase of \$384,463 compared to 2014. The increase in expense compared to 2014 is primarily due to several new contracts in 2015. The Authority's expenses include \$2,708 in depreciation expense on capital assets. The other four large expense items included salaries, in the amount of \$468,054; public education programs fees, in the amount of \$312,752; professional fees, in the amount of \$246,413; and Clean River Program expenses, in the amount of \$77,476.

Program revenues at year-end were \$2,087,995. This consisted mainly of \$997,423 in intergovernmental contracted services and \$378,312 in public education programs' contracted services. In fiscal year 2015, the Authority received \$712,260 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 – Continued

August 31, 2015

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 \$1,723,353, an increase of \$2,415 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 \$1,290,273 and final budget of \$1,387,509, ending the year with \$1,392,951 in actual costs.

Capital Assets and Debt Administration

Capital Assets

At August 31, 2015, capital assets approximated 67.36% of total assets in the governmental activities. The \$3,910,059 in capital assets, net of accumulated depreciation, is primarily land, construction in progress, office furniture, and equipment.

During the year, the Authority had additions to capital assets of \$649,612 relating to the acquisition of easements and construction in progress on the Leakey Wastewater Treatment Plant.

Long-Term Liabilities

At year-end, the Authority had \$33,173 in accrued compensated absences, an increase of \$4,353 from 2014. More detailed information about the Authority's debt is presented in the notes to the financial statements.

Nueces River Authority

Management's Discussion and Analysis – Continued

August 31, 2015

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 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 construction phase is scheduled to begin in fiscal year 2016. 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 loan is not included in the Authority's financial statements. During the year ended August 31, 2015, the Authority had expenditures of \$715,737 related to this project. The Authority estimates the total project costs to be approximately \$32,500,000. As of August 31, 2015, the Authority does not have any construction commitments. The Authority has applied for additional funding from the Texas Water Development Board's Economically Distressed Areas Program to cover the remaining estimated cost of the project.

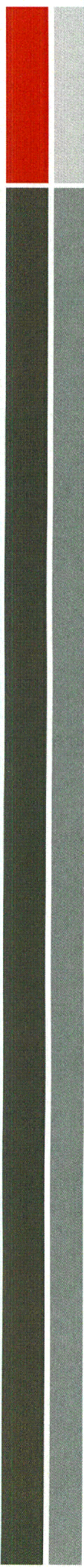
In accordance with Exhibit F – Escrow Agreement of the Loan Forgiveness Agreement (TWDB Contract No. G110033), the proceeds under this contract shall not be considered as a banking deposit of the Authority. Accordingly, these funds have not been recorded in the financial statements of the Authority as of August 31, 2015.

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 2015.

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: fkuckemeyer@nueces-ra.org.

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Basic Financial Statements

Nueces River Authority

Statement of Net Position

August 31, 2015

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 460,739
Investments	1,172,075
Prepaid expenses	200
Receivables:	
Contract/grant	249,809
Accrued interest	12,032
	<hr/>
Total current assets	1,894,855
Capital assets:	
Land – Leakey	2,527,135
Construction in progress – Leakey	1,381,878
Furniture and equipment	136,437
Less accumulated depreciation	(135,391)
	<hr/>
Total capital assets – net of accumulated depreciation	3,910,059
Total assets	\$ 5,804,914
Liabilities	
Current liabilities:	
Accounts payable	\$ 47,944
Unearned income	123,558
	<hr/>
Total current liabilities	171,502
Long-term liabilities:	
Accrued compensated absences	33,173
	<hr/>
Total liabilities	\$ 204,675
Net Position	
Investment in capital assets	\$ 3,910,059
Unrestricted	1,690,180
	<hr/>
Total net position	\$ 5,600,239

The accompanying notes are an integral part of this statement.

Nueces River Authority

Statement of Activities

Year Ended August 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
					<u>Governmental Activities</u>
Governmental activities:					
General operations	\$ <u>1,466,137</u>	\$ <u>731,824</u>	\$ <u>643,911</u>	\$ <u>712,260</u>	\$ <u>621,858</u>
Total governmental activities	\$ <u>1,466,137</u>	\$ <u>731,824</u>	\$ <u>643,911</u>	\$ <u>712,260</u>	<u>621,858</u>
General revenues:					
Investment income					20,108
Other income					<u>3,000</u>
Total general revenues					<u>23,108</u>
Change in net position					644,966
Net position at beginning of year					<u>4,955,273</u>
Net position at end of year					\$ <u>5,600,239</u>

The accompanying notes are an integral part of this statement.

Nueces River Authority
Balance Sheet – Governmental Funds
 August 31, 2015

	<u>General Fund</u>	<u>Leakey Capital Project Fund</u>	<u>Total Governmental Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 457,075	\$ 3,664	\$ 460,739
Investments	1,172,075	-	1,172,075
Prepaid expenses	200	-	200
Receivables:			
Contract/grant	196,732	53,077	249,809
Accrued interest	12,032	-	12,032
Due from Capital Project Fund	<u>52,996</u>	<u>-</u>	<u>52,996</u>
Total current assets	<u>1,891,110</u>	<u>56,741</u>	<u>1,947,851</u>
Total assets	<u>\$ 1,891,110</u>	<u>\$ 56,741</u>	<u>\$ 1,947,851</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 44,385	\$ 3,559	\$ 47,944
Unearned income	123,372	186	123,558
Due to General Fund	<u>-</u>	<u>52,996</u>	<u>52,996</u>
Total liabilities	<u>167,757</u>	<u>56,741</u>	<u>224,498</u>
Fund Balances			
Unassigned	<u>1,723,353</u>	<u>-</u>	<u>1,723,353</u>
Total fund balances	<u>1,723,353</u>	<u>-</u>	<u>1,723,353</u>
Total liabilities and fund balances	<u>\$ 1,891,110</u>	<u>\$ 56,741</u>	<u>\$ 1,947,851</u>

Nueces River Authority

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

August 31, 2015

Total fund balances – Governmental Funds balance sheet	\$ 1,723,353
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	3,910,059
Payables for accrued compensated absences, which are not due in the current period, are not reported in the funds	<u>(33,173)</u>
Net position of governmental activities – statement of net position	\$ <u>5,600,239</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, 2015

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
Revenues			
Contracted services:			
Intergovernmental	\$ 997,423	\$ -	\$ 997,423
Public education programs	378,312	-	378,312
Grant revenue	-	712,260	712,260
Investment income	29,474	-	29,474
Net decrease in fair value of investments	(9,366)	-	(9,366)
Other income	3,000	-	3,000
Total revenues	1,398,843	712,260	2,111,103
Expenditures			
General operations:			
Salaries	468,054	-	468,054
Payroll taxes	36,345	-	36,345
Employee medical insurance	51,695	-	51,695
Retirement	31,389	-	31,389
Directors' fees, travel, and meetings	16,545	-	16,545
Travel and conferences	16,461	-	16,461
Professional fees	246,413	-	246,413
SCRWSPG contributions	476	-	476
Edwards Aquifer RIP	1,000	-	1,000
Telephone and fax	12,566	-	12,566
Dues, subscriptions, and publications	3,620	-	3,620
Insurance and bonds	9,794	-	9,794
Equipment and facilities rent	41,286	-	41,286
Office supplies and postage and delivery	2,654	-	2,654
Repairs and maintenance	2,544	-	2,544
Binding and printing	2,482	-	2,482
Miscellaneous	2,051	-	2,051
Capital outlay	-	715,737	715,737
Clean Rivers Program expenses	77,476	-	77,476
Public education programs	312,752	-	312,752
Senate Bill 1 expenses	5,381	-	5,381
Texas State Soil and Water Conservation Board	38,241	-	38,241
San Miguel Creek	1,185	-	1,185
Petronila Creek	12,541	-	12,541
Total expenditures	1,392,951	715,737	2,108,688
Excess (deficiency) of revenues over (under) expenditures	5,892	(3,477)	2,415
Other Financing Sources (Uses)			
Transfers in	-	3,477	3,477
Transfers out	(3,477)	-	(3,477)
Total other financing sources (uses)	(3,477)	3,477	-
Net change in fund balances	2,415	-	2,415
Fund balances at beginning of year	1,720,938	-	1,720,938
Fund balances at end of year	\$ 1,723,353	\$ -	\$ 1,723,353

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, 2015

Net change in fund balances – total Governmental Funds	\$ 2,415
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	649,612
Depreciation of capital assets is used in governmental activities, but is not reported in the funds	(2,708)
Net change in accrued compensated absences	<u>(4,353)</u>
Change in net position of governmental activities – statement of activities	<u>\$ 644,966</u>

The accompanying notes are an integral part of this statement.

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Nueces River Authority

Notes to the Financial Statements

August 31, 2015

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, 2015

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.

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

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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

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. 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.

Net Position

Net position represents the difference between assets and liabilities. Investments in capital assets, consists of capital assets, net of accumulated depreciation. 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, and construction in progress, 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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

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.

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.

Receivables

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2015, the allowance for contract receivables was \$0.

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

Unearned Income

The Authority receives payments from customers in advance for reimbursable expenses. The balance in unearned income 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 accordance 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.

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 its 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 and separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

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 only unassigned fund balances.

Note B – 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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

Cash Deposits

At August 31, 2015, the carrying amount of the Authority's deposits [cash, certificates of deposit ("CDs"), and interest-bearing savings accounts included in temporary investments] was \$460,739, and the bank balance was \$550,477. The Authority's cash deposits as of and for the year ended August 31, 2015 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 \$949,851.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$827,978 and occurred during the month of December.
- 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 and losses 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.

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

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>1,172,075</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 its fair value is 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, which shows the specific investments and their maturity as of August 31, 2015:

<u>Description</u>	<u>Years to Maturity</u>	<u>Fair Value</u>	<u>Percentage</u>
United States agency notes	Less than 1 year	\$ 202,002	17%
	1 year to 2 years	284,879	25%
	2 years to 3 years	249,845	21%
	3 years to 4 years	270,542	23%
	More than 4 years	<u>164,807</u>	<u>14%</u>
Total investments		\$ <u>1,172,075</u>	<u>100%</u>

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

Note C – 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. As of August 31, 2015, contract receivables for the General Fund and the Leakey Capital Project Fund were \$196,732 and \$53,077, respectively.

Note D – Changes in Capital Assets

A summary of the changes in the Authority's capital assets for the year ended August 31, 2015 is shown below:

	<u>Balance at August 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at August 31, 2015</u>
Land – Leakey	\$ 2,393,193	\$ 133,942	\$ -	\$ 2,527,135
Construction in progress – Leakey	866,208	515,670	-	1,381,878
Furniture and equipment	<u>136,437</u>	<u>-</u>	<u>-</u>	<u>136,437</u>
	3,395,838	649,612	-	4,045,450
Less accumulated depreciation	<u>(132,683)</u>	<u>(2,708)</u>	<u>-</u>	<u>(135,391)</u>
	<u>\$ 3,263,155</u>	<u>\$ 646,904</u>	<u>\$ -</u>	<u>\$ 3,910,059</u>

Depreciation expense totaled \$2,708 for the year ended August 31, 2015.

Note E – Long-Term Debt

Accrued Compensated Absences

The following is a summary of accrued compensated absences transactions for the year ended August 31, 2015:

	<u>Balance at August 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at August 31, 2015</u>
Governmental activities	\$ <u>28,820</u>	\$ <u>37,535</u>	\$ <u>33,182</u>	\$ <u>33,173</u>

Nueces River Authority

Notes to the Financial Statements

August 31, 2015

Note F – 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 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 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 \$70,245,000.

Subsequent to year-end, in September 2015, the Authority issued (as conduit debt on behalf of City of Corpus Christi) \$62,785,000 of Water Supply Facilities Revenue Refunding Bonds (City of Corpus Christi, Lake Texana Pipeline Project), Series 2015, to be used to refund \$70,245,000 of the outstanding Series 2005 bonds, which would have matured in 2016 through 2027. The Series 2015 mature serially through March 1, 2027 and bear interest rates from 3.00% to 5.00%. Annual principal payments range from \$4,545,000 to \$6,520,000 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 \$11,231,907 and a present value savings of \$9,597,354, which results in a net present value benefit of 13.67%. The City of Corpus Christi has pledged revenues from its combined waterworks system, wastewater disposal system, and gas system for payment of these bonds.

Nueces River Authority
Notes to the Financial Statements
 August 31, 2015

Note G – Operating Leases

The Authority has commitments under operating lease agreements as of August 31, 2015 that expire through 2019. 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, 2015 as follows:

<u>Year</u>	<u>General Fund</u>
2016	\$ 42,663
2017	14,503
2018	6,742
2019	<u>1,277</u>
	<u>\$ 65,185</u>

Rental expenditures in 2015 totaled \$45,417 and are included in the General Fund.

Note H – 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, 2015, seven employees of the Authority participated in the defined contribution plan. Contribution percentages were 7%. Employee and employer contributions totaled \$30,389 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, 2015

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 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 I – Major Revenue Sources

Contracted services and grant revenue of 58%, or \$1,203,863, was received from three governmental entities.

Note J – 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 2015. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

Note K – 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.

The Authority receives significant financial assistance from state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements and is subject to audit by the grantor agencies; therefore, to the extent the Authority has not complied with rules and regulations governing the grants, if any, refunds of any money received may be required. Management believes there are no significant contingent liabilities relating to compliance with grant rules and regulations.

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, 2015

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, 2015.

Note L – 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 construction phase is scheduled to begin in fiscal year 2016. 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 loan is not included in the Authority's financial statements. During the year ended August 31, 2015, the Authority had expenditures of \$715,737 related to this project. The Authority estimates the total project costs to be approximately \$32,500,000. As of August 31, 2015, the Authority does not have any construction commitments. The Authority has applied for additional funding from the Texas Water Development Board's Economically Distressed Areas Program to cover the remaining estimated cost of the project.

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, 2015.

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Required Supplementary Information

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Nueces River Authority

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

Year Ended August 31, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Contracted services:				
Intergovernmental	\$ 890,202	\$ 995,529	\$ 997,423	\$ 1,894
Public education programs	402,488	373,902	378,312	4,410
Investment income	34,608	29,418	29,474	56
Net decrease in fair value of investments	-	-	(9,366)	(9,366)
Other income	3,000	3,000	3,000	-
Total revenues	1,330,298	1,401,849	1,398,843	(3,006)
Expenditures				
General operations:				
Salaries	453,323	468,054	468,054	-
Payroll taxes	35,365	36,402	36,345	57
Employee medical insurance	54,248	51,695	51,695	-
Retirement	32,732	31,390	31,389	1
Directors' fees, travel, and meetings	20,300	16,820	16,545	275
Travel and conferences	20,500	16,459	16,461	(2)
Professional fees	179,766	246,413	246,413	-
SCRWSPG contributions	1,000	476	476	-
Edwards Aquifer RIP	1,000	1,000	1,000	-
Telephone and fax	12,869	12,565	12,566	(1)
Dues, subscriptions, and publications	2,600	3,620	3,620	-
Insurance and bonds	8,000	9,794	9,794	-
Equipment and facilities rent	42,078	41,286	41,286	-
Office supplies and postage and delivery	4,800	2,628	2,654	(26)
Repairs and maintenance	600	2,544	2,544	-
Binding and printing	4,000	2,442	2,482	(40)
Miscellaneous	1,500	2,048	2,051	(3)
Clean Rivers Program expenses	68,717	76,771	77,476	(705)
Public education programs	313,282	308,010	312,752	(4,742)
Senate Bill 1 expenses	4,000	5,380	5,381	(1)
Texas State Soil and Water Conservation Board	14,500	38,002	38,241	(239)
San Miguel Creek	3,841	1,190	1,185	5
Petronila Creek	11,252	12,520	12,541	(21)
Total expenditures	1,290,273	1,387,509	1,392,951	(5,442)
Excess of revenues over expenditures	40,025	14,340	5,892	(8,448)
Other Financing Uses				
Transfers out	-	-	(3,477)	(3,477)
Net change in fund balance	40,025	14,340	2,415	(11,925)
Fund balance at beginning of year	1,720,938	1,720,938	1,720,938	-
Fund balance at end of year	\$ 1,760,963	\$ 1,735,278	\$ 1,723,353	\$ (11,925)

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Other Supplementary Information

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Nueces River Authority

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended August 31,

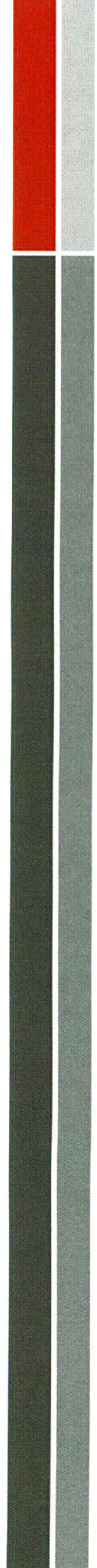
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues					
Contracted services:					
Intergovernmental	\$ 997,423	\$ 759,309	\$ 786,818	\$ 713,650	\$ 727,888
Public education programs	378,312	299,182	252,490	247,741	360,076
Special project	-	-	-	15,901	-
Investment income	29,474	36,056	50,401	53,633	57,079
Net decrease in fair value of investments	(9,366)	(10,975)	(60,883)	(28,661)	(841)
Other income	3,000	4,500	15,045	15,982	13,715
Total revenues	<u>1,398,843</u>	<u>1,088,072</u>	<u>1,043,871</u>	<u>1,018,246</u>	<u>1,157,917</u>
Expenditures					
General operations:					
Salaries	468,054	453,323	456,096	433,417	473,192
Payroll taxes	36,345	35,005	35,673	33,947	37,108
Employee medical insurance	51,695	51,057	49,031	50,971	45,428
Retirement	31,389	30,575	31,004	26,722	30,584
Directors' fees, travel, and meetings	16,545	14,511	17,431	10,933	16,504
Travel and conferences	16,461	15,770	17,864	17,757	22,055
Professional fees	246,413	121,558	96,010	55,153	71,912
SCRWSPG contributions	476	412	484	1,158	1,326
Edwards Aquifer RIP	1,000	1,000	1,000	-	-
Telephone and fax	12,566	11,792	12,269	14,047	14,398
Dues, subscriptions, and publications	3,620	2,197	2,614	2,540	4,411
Insurance and bonds	9,794	6,686	8,299	10,453	11,630
Equipment and facilities rent	41,286	42,321	41,667	44,703	42,341
Office supplies and postage and delivery	2,654	1,186	8,374	3,251	4,675
Repairs and maintenance	2,544	300	437	3,373	2,378
Binding and printing	2,482	2,231	4,643	3,823	3,386
Miscellaneous	2,051	1,300	5,930	1,753	6,339
Capital outlay	-	-	-	6,037	588
Clean Rivers Program expenses	77,476	61,841	78,159	62,258	73,955
Copano Bay sampling	-	-	-	-	42,033
Public education programs	312,752	212,914	176,146	162,982	293,041
Senate Bill 1 expenses	5,381	3,232	1,920	13,404	1,886
Arroyo Colorado expenses	-	-	-	-	460
Aransas Creek	-	-	6,013	2,814	1,801
Texas State Soil and Water Conservation Board	38,241	11,653	4,084	-	-
Coastal Bend Bays & Estuaries Program	-	-	6,497	-	-
San Miguel Creek	1,185	3,268	-	-	-
Petronila Creek	12,541	338	2,577	-	-
Source water protection	-	-	2,408	27,377	7,260
Total expenditures	<u>1,392,951</u>	<u>1,084,470</u>	<u>1,066,630</u>	<u>988,873</u>	<u>1,208,691</u>
Excess (deficiency) of revenues over (under) expenditures	5,892	3,602	(22,759)	29,373	(50,774)
Fund balance at beginning of year	<u>1,720,938</u>	<u>1,717,336</u>	<u>1,740,095</u>	<u>1,710,722</u>	<u>1,761,496</u>
Fund balance at end of year	<u>\$ 1,726,830</u>	<u>\$ 1,720,938</u>	<u>\$ 1,717,336</u>	<u>\$ 1,740,095</u>	<u>\$ 1,710,722</u>

Nueces River Authority
Insurance Coverage – Unaudited
 August 31, 2015

Type of Coverage	Amount of Coverage	Insurer		
		Name	Type of Corporation Stock/Mutual	Policy Clause – Co-Insurance
Workers' Compensation	Guaranteed Cost	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	\$ 561,353	Texas Water Conservation Association	Risk Management Fund	No
Public Official Bond – Board Members	\$ 10,000	Old Republic Surety Company	Stock	No
Commercial Crime Policy	\$ 25,000	Old Republic 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.



Federal Awards Section

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Padgett Stratemann

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Nueces River Authority
Uvalde, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Nueces River Authority (the "Authority") as of and for the year ended August 31, 2015, and the related notes to financial statements, which collectively comprise the basic financial statement, and have issued our report thereon dated December 3, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas
December 3, 2015



Padgett Stratemann

Independent Auditor's Report on Compliance for a Major Federal Program and Report on Internal Control Over Compliance as Required By OMB Circular A-133

To the Board of Directors
Nueces River Authority
Uvalde, Texas

Report on Compliance for a Major Federal Program

We have audited Nueces River Authority (the "Authority") compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended August 31, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

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Opinion on its Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2015.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas
December 3, 2015

Nueces River Authority

Schedule of Findings and Questioned Costs

Year Ended August 31, 2015

I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards:

Internal control over major programs:

Type of auditor’s report issued on compliance for major programs:

Unmodified

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 _____ Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program

66.458

Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

II – Financial Statement Finding

None noted.

III – Federal Awards Findings and Questioned Costs

None noted.

Nueces River Authority
Schedule of Expenditures of Federal Awards
Year Ended August 31, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Environmental Protection Agency:</u>			
Pass Through:			
Texas Water Development Board Capitalization Grants for Clean Water State Revolving Funds	66.458	G110033	\$ <u>422,801</u>
Texas State Soil and Water Conservation Board Water Protection Plan	66.460	12-05	<u>139,333</u>
Texas A&M AgriLife Extension Service and Texas State Soil and Water Conservation Board Clean Water Act 319(h) Nonpoint Source Grant Program Statewide Delivery Riparian and Stream Ecosystem Education Program	66.460	12-07	<u>8,528</u>
Total Environmental Protection Agency			<u>570,662</u>
<u>Department of the Interior:</u>			
Pass Through:			
Texas Parks and Wildlife Department Landowner Incentive Program – Fro/Sabinal	15.631	431319	3,675
Landowner Incentive Program – Dry Frio	15.631	420897	7,375
Boating Access	15.605	470934	<u>24,143</u>
Total Passed Through Texas Parks and Wildlife Development			<u>35,193</u>
Total Department of the Interior			<u>35,193</u>
Total Expenditures of Federal Awards			\$ <u>605,855</u>

Nueces River Authority

Note to the Schedule of Expenditures of Federal Awards

Year Ended August 31, 2015

1. The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Nueces River Authority (the "Authority") and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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PS&Co.

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