

# **Nueces River Authority**

Financial Report  
August 31, 2016

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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, 2016, 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 an opinion 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.

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

### Opinion

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, 2016, 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) and actual—General Fund on pages 3 through 7 and page 27 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The comparative schedule of revenues and expenditures—General Fund is presented for purposes of additional analysis and is not a required part of the basic 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 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 9, 2016, 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.

*RSM US LLP*

San Antonio, Texas  
December 9, 2016

## Nueces River Authority

### Management's Discussion and Analysis

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This section of the 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, 2016. 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, 2016, by \$7,733,489. Of this amount, \$1,689,932 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 \$2,133,250 in fiscal year 2016. 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 2016, the Authority's Governmental Funds reported a combined ending fund balance of \$1,659,300, a decrease of \$64,053 from last year.

#### 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 and report 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.

**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 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 it has 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.

## Nueces River Authority

### Management's Discussion and Analysis

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- 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 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 and 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.

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 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 \$7,733,489 at the end of 2016 (see Table A-1).

## Nueces River Authority

### Management's Discussion and Analysis

There is \$6,043,557 of investment in capital assets. Further, \$1,689,932 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**

	Governmental Activities		Percent Change
	2016	2015	
Current and other assets	\$ 2,427,638	\$ 1,894,855	28%
Capital assets	6,043,557	3,910,059	55%
<b>Total assets</b>	<b>\$ 8,471,195</b>	<b>\$ 5,804,914</b>	
Current liabilities	\$ 737,706	\$ 204,675	260%
<b>Total liabilities</b>	<b>\$ 737,706</b>	<b>\$ 204,675</b>	
Net position:			
Investments in capital assets	\$ 6,043,557	\$ 3,910,059	55%
Unrestricted	1,689,932	1,690,180	0%
<b>Total net position</b>	<b>\$ 7,733,489</b>	<b>\$ 5,600,239</b>	38%

**Changes in net position:** The Authority's net position increased by \$2,133,250, or 231 percent (see Table A-2). The increase is primarily attributable to grant revenues earned from the Leakey Capital Project Fund.

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

	Governmental Activities		Percent Change
	2016	2015	
Revenues:			
Program revenues:			
Charges for services	\$ 520,646	\$ 731,824	-29%
Operating grants and contributions	634,491	643,911	-1%
Capital grants and contributions	2,242,270	712,260	215%
General revenues:			
Investment income	16,718	20,108	-17%
Other income	19,734	3,000	558%
<b>Total revenues</b>	<b>3,433,859</b>	<b>2,111,103</b>	63%
Expenses	1,300,609	1,466,137	-11%
<b>Change in net position</b>	<b>2,133,250</b>	<b>644,966</b>	231%
Net position at beginning of year	5,600,239	4,955,273	13%
Net position at end of year	<b>\$ 7,733,489</b>	<b>\$ 5,600,239</b>	38%

## Nueces River Authority

### Management's Discussion and Analysis

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The Authority's total program revenues were \$3,397,407 which is an increase of \$1,309,412 compared to 2015. This increase is due to increased construction activity at the Leakey Wastewater Facility, which is reimbursed by grants. Program revenues consisted mainly of \$645,564 in intergovernmental contracted services, \$2,372,639 in grant revenues and \$309,217 in public education programs' contracted services. Charges for service revenues were \$520,646, which is a decrease of \$211,178 compared to 2015. This decrease is due to the completion of the SB1 State contract. The increase in capital grants and contributions revenues was the result of increased construction activity related to the Leakey Project, which is federally funded. Approximately 15.32 percent of the Authority's program revenues came from charges for services, with 18.68 percent from operating grants and contributions, and the remaining 66.00 percent from capital grants and contributions.

The Authority's expenses totaled \$1,300,609, which is a decrease of \$165,528 compared to 2015. The decrease in expense compared to 2015 is primarily due to the completion of the SB1 State contract. Four large expense items included salaries, in the amount of \$474,140; public education programs fees, in the amount of \$287,869; professional fees, in the amount of \$72,942; and Clean River Program expenses, in the amount of \$61,400.

#### 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 \$1,659,300, a decrease of \$64,053 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 \$1,161,779 and final budget of \$1,168,964, ending the year with \$1,167,927 in actual costs.

#### Capital Assets

At August 31, 2016, capital assets approximated 71.34 percent of total assets in the governmental activities. The \$6,043,557 in capital assets, net of accumulated depreciation, is primarily land and construction in progress.

During the year, the Authority had additions to capital assets of \$2,134,544 relating to the acquisition of easements and construction in progress on the Leakey Wastewater Treatment Plant.

#### Economic Factors and Next Year's Budget

During the fiscal year ended August 31, 2012, the TWDB approved a resolution of a request from the Authority for \$11,043,460 in financial assistance, consisting of a \$9,961,460 loan (Loan Forgiveness Funds), with up to 100 percent 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, which was forgiven upon execution of the grant agreement.



## **Nueces River Authority**

### **Management's Discussion and Analysis**

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The loan forgiveness funds were deposited in an approved escrow account to be released to the Authority's Construction Fund at the direction of the Executive Administrator of the TWDB or an authorized and designated representative. In accordance with Exhibit F—Escrow Agreement of the Loan Forgiveness Agreement (TWDB Contract No. G110033), the funds deposited into the escrow account under this contract shall not be considered as a banking deposit by the Authority. Accordingly, these funds have not been recorded in the financial statements of the Authority as of August 31, 2016.

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 2016.

#### **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 email: [fkruckemeyer@nueces-ra.org](mailto:fkruckemeyer@nueces-ra.org).

**Nueces River Authority**

**Statement of Net Position  
August 31, 2016**

**Governmental  
Activities**

**Assets**

Current assets:

Cash and cash equivalents	\$ 467,237
Investments	1,203,892
Prepaid expenses	426
Receivables:	
Contract/grant	746,176
Accrued interest	9,907
<b>Total current assets</b>	<u>2,427,638</u>

Capital assets:

Land	2,541,055
Construction in progress	3,502,502
Furniture and equipment	136,437
Less accumulated depreciation	(136,437)
<b>Total capital assets, net of accumulated depreciation</b>	<u>6,043,557</u>

**Total assets**

\$ 8,471,195

**Liabilities**

Current liabilities:

Accounts payable	\$ 605,667
Unearned income	92,684
Accrued compensated absences	39,355

**Total liabilities**

\$ 737,706

**Net position**

Investment in capital assets	\$ 6,043,557
Unrestricted	1,689,932

**Total net position**

\$ 7,733,489

See notes to financial statements.

**Nueces River Authority**

**Statement of Activities  
Year Ended August 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position— Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Protection and preservation of water resources	\$ 1,300,609	\$ 520,646	\$ 634,491	\$ 2,242,270	\$ 2,096,798
<b>Total governmental activities</b>	<b>\$ 1,300,609</b>	<b>\$ 520,646</b>	<b>\$ 634,491</b>	<b>\$ 2,242,270</b>	<b>2,096,798</b>
General revenues:					
Investment income					16,718
Other income					19,734
<b>Total general revenues</b>					<b>36,452</b>
<b>Change in net position</b>					<b>2,133,250</b>
Net position at beginning of year					5,600,239
Net position at end of year					<b>\$ 7,733,489</b>

See notes to financial statements.

Nueces River Authority

Balance Sheet—Governmental Funds  
August 31, 2016

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 449,270	\$ 17,967	\$ 467,237
Investments	1,203,892	-	1,203,892
Prepaid expenses	426	-	426
Receivables:			
Contract/grant	169,133	577,043	746,176
Accrued interest	9,907	-	9,907
Due from Leakey Capital Project Fund	25,354	-	25,354
<b>Total current assets</b>	<u>1,857,982</u>	<u>595,010</u>	<u>2,452,992</u>
<b>Total assets</b>	<u>\$ 1,857,982</u>	<u>\$ 595,010</u>	<u>\$ 2,452,992</u>
<b>Liabilities, Deferred Inflows or Resources and Fund Balances</b>			
Current liabilities:			
Accounts payable	\$ 36,278	\$ 569,389	\$ 605,667
Unearned income	92,417	267	92,684
Due to General Fund	-	25,354	25,354
<b>Total liabilities</b>	<u>128,695</u>	<u>595,010</u>	<u>723,705</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues—CRP	69,987	-	69,987
<b>Total deferred inflows of resources</b>	<u>69,987</u>	<u>-</u>	<u>69,987</u>
Fund balances:			
Unassigned	1,659,300	-	1,659,300
<b>Total fund balances</b>	<u>1,659,300</u>	<u>-</u>	<u>1,659,300</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 1,857,982</u>	<u>\$ 595,010</u>	<u>\$ 2,452,992</u>

See notes to financial statements.

**Nueces River Authority**

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
August 31, 2016**

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Total fund balances—Governmental Funds balance sheet	\$ 1,659,300
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	6,043,557
Payables for accrued compensated absences, which are not due and payable with current period resources, are not reported in the funds	(39,355)
Certain operating grants and contribution revenues are recognized as revenue in the statement of activities, but are considered unavailable in the fund financial statements because they are not available for current period expenditures	<u>69,987</u>
Net position of governmental activities—statement of net position	<u><u>\$ 7,733,489</u></u>

See notes to financial statements.

**Nueces River Authority**

**Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds  
Year Ended August 31, 2016**

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
<b>Revenues:</b>			
Contracted services:			
Intergovernmental	\$ 645,564	\$	\$ 645,564
Public education programs	309,217		309,217
Grant revenue	130,369	2,242,270	2,372,639
Investment income	16,718		16,718
Other income	19,734		19,734
<b>Total revenues</b>	<b>1,121,602</b>	<b>2,242,270</b>	<b>3,363,872</b>
<b>Expenditures:</b>			
Protection and preservation of water resources:			
Salaries	474,140		474,140
Payroll taxes	36,285		36,285
Employee medical insurance	53,246		53,246
Retirement	33,973		33,973
Directors' fees, travel and meetings	18,843		18,843
Travel and conferences	12,562		12,562
Professional fees	72,942		72,942
SCRWSPG contributions	430		430
Edwards Aquifer RIP	1,000		1,000
Telephone and fax	14,316		14,316
Dues, subscriptions and publications	2,383		2,383
Insurance and bonds	9,564		9,564
Equipment and facilities rent	41,248		41,248
Office supplies and postage and delivery	3,066		3,066
Repairs and maintenance	603		603
Binding and printing	1,294		1,294
Miscellaneous	1,291		1,291
Clean Rivers Program expenses	61,400		61,400
Public education programs	287,869		287,869
Senate Bill 1 expenses	2,988		2,988
Texas State Soil and Water Conservation Board	6,122		6,122
San Miguel Creek	353		353
Petronila Creek	6,196		6,196
CBBEP	9,490		9,490
SEP	4,012		4,012
Oso Creek	12,311		12,311
Capital outlay		2,259,998	2,259,998
<b>Total expenditures</b>	<b>1,167,927</b>	<b>2,259,998</b>	<b>3,427,925</b>
<b>Deficiency of revenues under expenditures</b>	<b>(46,325)</b>	<b>(17,728)</b>	<b>(64,053)</b>
<b>Other financing sources (uses):</b>			
Transfers in		17,728	17,728
Transfers out	(17,728)		(17,728)
<b>Total other financing sources (uses)</b>	<b>(17,728)</b>	<b>17,728</b>	
<b>Net change in fund balances</b>	<b>(64,053)</b>		<b>(64,053)</b>
Fund balances at beginning of year	1,723,353		1,723,353
Fund balances at end of year	\$ 1,659,300	\$	\$ 1,659,300

See notes to financial statements.

**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, 2016**

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Net change in fund balances—total Governmental Funds	\$ (64,053)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets are not reported as expenses in the statement of activities	2,134,544
Depreciation of capital assets is used in governmental activities, but is not reported in the funds	(1,046)
Net change in accrued compensated absences	(6,182)
Net change in unavailable revenues—CRP	69,987
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Change in net position of governmental activities—statement of activities	<u>\$ 2,133,250</u>

See notes to financial statements.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 1. 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. Currently, the Authority's primary function is the protection and preservation of water resources. 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 six-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.

The Authority considered the guidelines specified by the Governmental Accounting Standards Board's (GASB) *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.

**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.



## Nueces River Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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:

- Total assets, liabilities, revenues or expenditures/expenses of that individual Governmental or Enterprise Fund are at least 10 percent of the corresponding total for all funds of that category or type.
- Total assets, liabilities, revenues or expenditures/expenses of the individual Governmental and Enterprise Fund are at least 5 percent 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.

*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.

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 Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Net position:** Net position represents the difference between assets and liabilities. Investment 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.

**Revenue:** The Authority receives various grant awards for intergovernmental and public education programs. Revenues are recognized upon receipt of the award, if there are no eligibility requirements to be met. If there are eligibility requirements, revenues are not recognized until such requirements are satisfied.

**Grant revenues:** Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project, grantors can require the Authority to refund all or part of the unused amount.

**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.

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 useful life of the assets. The estimated useful lives are as follows:

<u>Asset Description</u>	<u>Asset Life</u>
Furniture and equipment	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 percent 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. 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, have maturity dates no longer than three months.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Investments:** Investments are recorded at fair value. Fair value is determined by the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset.

The Authority follows 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.

During the fiscal year ended August 31, 2016, the Authority adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB Statement No. 72 superseded GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, paragraph 3, which discusses the fair value of certain investments.

**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, 2016, the allowance for contract receivables was \$-0-.

**Unearned income:** The Authority receives payments from customers in advance for reimbursable expenses. The balance in unearned income represents these advances.

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

**Compensated absences:** The Authority allows employees to accumulate vacation leave with certain limitations. Accumulated vacation leave that is expected to be liquidated with expendable available financial resources for employees who have terminated their employment as of year-end 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 due and payable and, thus, not expected to be liquidated with current financial resources are reported in the governmental activities statement of net position.

**Interfund transactions:** Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements as transfers in and transfers out.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net position.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 1. 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:** 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 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 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 ended August 31, 2016, the Authority reported only unassigned fund balances.

**Deferred outflows/inflows of resources:** In addition to assets, Governmental Fund balance sheet will sometimes report on a separate section for deferred outflows of resources. This special financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Authority did not have any items that qualified for reporting in this category at August 31, 2016.

In addition to liabilities, Governmental Fund balance sheet will sometimes report on a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At August 31, 2016, the Authority recorded a deferred inflow for a Clean Rivers Program receivable that is measureable, but not available (collected more than 60 days after year-end) in the amount of \$69,987.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 2. 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, and 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.

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 Federal Deposit Insurance Corporation (FDIC) insurance.

**Cash deposits:** At August 31, 2016, the carrying amount of the Authority's deposits (cash, certificates of deposit [CDs] and interest-bearing savings accounts included in temporary investments) was \$467,237 and the bank balance was \$473,653. The Authority's cash deposits as of and for the year ended August 31, 2016, 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 \$946,040.
- c. The highest combined balances of cash, savings and time deposit accounts totaled \$705,506 and occurred during the month of January.
- 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 that 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 Financial Statements**

**Note 2. Deposits and Investments (Continued)**

**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. The investment policy restricts investments to securities that 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.

Description	Investment Rating	Rating Organization	Fair Value	Percentage Invested
U.S. Treasury notes	Aaa	Moody's	\$ 624,677	52%
Federal Home Loan Bank	Aaa	Moody's	178,534	15%
Federal Farm Credit Banks Funding Corporation	Aaa	Moody's	99,360	8%
Federal Home Loan Mortgage Corporation	Aaa	Moody's	197,760	16%
Government National Mortgage Association	N/A	N/A	103,561	9%
			<u>\$ 1,203,892</u>	<u>100%</u>

**Concentration of credit risk:** The Authority is required to disclose investments in any one issuer that represent 5 percent 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 percent are shown in the table above.

**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, 2016:

Description	Years to Maturity	Fair Value	Percentage
U.S. Treasury notes	1-2 years	\$ 350,776	29%
U.S. Treasury notes	2-3 years	273,901	23%
Federal Home Loan Bank	1-2 years	178,534	15%
Federal Farm Credit Banks Funding Corporation	More than 4 years	99,360	8%
Federal Home Loan Mortgage Corporation	More than 4 years	197,760	16%
Government National Mortgage Association	More than 4 years	103,561	9%
		<u>\$ 1,203,892</u>	<u>100%</u>

**Nueces River Authority**

**Notes to Financial Statements**

**Note 2. Deposits and Investments (Continued)**

**GASB Statement No. 72 Adoption:** The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation input used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs, which include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or other observable inputs, such as interest rates and yield curves at commonly quoted intervals, implied volatilities, and credit spreads; or market-corroborated inputs
- Level 3 inputs are significant unobservable inputs

The carrying amount of investments and fair value hierarchy at August 31, 2016, is shown below:

	Total	Level 1	Level 2	Level 3
Assets:				
Debt securities:				
U.S. Treasury notes	\$ 624,677	\$	\$ 624,677	\$
Federal Home Loan Bank	178,534		178,534	
Federal Farm Credit Banks Funding Corporation	99,360		99,360	
Federal Home Loan Mortgage Corporation	197,760		197,760	
Government National Mortgage Association	103,561		103,561	
Total debt securities	\$ 1,203,892	\$	\$ 1,203,892	\$

Debt securities classified in Level 2 of the fair value hierarchy are valued using a computerized pricing service utilizing a yield-based matrix system to arrive at an estimated market value. The Authority does not have any Level 1 or Level 3 investments.

**Note 3. Contract Services/Grants Receivables**

The Authority has entered into various contracts to provide services to other governmental entities. All contract service revenues and expenses incurred in fulfilling these contracts are reported in the General Fund. As of August 31, 2016, contract receivables for the General Fund and the Leakey Capital Project Fund were \$169,133 and \$577,043, respectively.

**Nueces River Authority**

**Notes to Financial Statements**

**Note 4. Interfund Balances and Transfers**

All due from and due to other funds balances are expected to be received/paid during the next fiscal year. A summary of the Authority's interfund balances and transfers as of August 31, 2016, are as follows:

	Due From Other Funds	Due to Other Funds	Interfund Transfers In	Interfund Transfers Out
Major governmental funds:				
General fund	\$ 25,354	\$ -	\$ -	\$ 17,728
Leakey Capital Projects Fund	-	25,354	17,728	-
Total	<u>\$ 25,354</u>	<u>\$ 25,354</u>	<u>\$ 17,728</u>	<u>\$ 17,728</u>

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Transfers between funds represent cash transfers to provide financial support for the normal operations of the receiving funds.

**Note 5. Changes in Capital Assets**

A summary of the changes in the Authority's capital assets for the year ended August 31, 2016, is shown below:

	Balance at August 31, 2015	Additions	Deletions	Balance at August 31, 2016
Land	\$ 2,527,135	\$ 13,920	\$ -	\$ 2,541,055
Construction in progress	1,381,878	2,120,624	-	3,502,502
Furniture and equipment	136,437	-	-	136,437
	<u>4,045,450</u>	<u>2,134,544</u>		<u>6,179,994</u>
Less accumulated depreciation	(135,391)	(1,046)	-	(136,437)
	<u>\$ 3,910,059</u>	<u>\$ 2,133,498</u>	<u>\$ -</u>	<u>\$ 6,043,557</u>

Depreciation expense totaled \$1,046 for the year ended August 31, 2016.

**Note 6. Accrued Compensated Absences**

The following is a summary of accrued compensated absences transactions for the year ended August 31, 2016:

	Balance at August 31, 2015	Additions	Deletions	Balance at August 31, 2016	Current Portion
Governmental activities	\$ 33,173	\$ 40,411	\$ (34,229)	\$ 39,355	\$ 39,355

Accrued compensated absence will be liquidated primarily by the General Fund.



## Nueces River Authority

### Notes to Financial Statements

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#### **Note 7. 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 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 percent to 5.25 percent. 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 percent.

The City of Corpus Christi has pledged revenues from its combined waterworks system, wastewater disposal system and gas system for payment of these bonds.

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 percent to 5 percent. 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 percent. 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 \$58,240,000.

#### **Note 8. Operating Leases**

The Authority has commitments under operating lease agreements as of August 31, 2016, that expire through 2021. 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.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 8. Operating Leases (Continued)

The lease agreements provide for minimum future rental payments as of August 31, 2016, as follows:

	<u>General Fund</u>
Years ending August 31:	
2017	\$ 25,050
2018	10,143
2019	4,677
2020	3,400
2021	2,905
	<u>\$ 46,175</u>

Rental expenditures in 2016 totaled \$45,640 and are included in the General Fund.

#### Note 9. 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 2016. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage during the previous three fiscal years.

#### Note 10. 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 percent nonforfeitable. Employer contributions are made on a pretax 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 percent of participants' 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 pretax basis. Participants may make voluntary contributions up to 10 percent 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 percent of the employee's gross wages. For the year ended August 31, 2016, nine employees of the Authority participated in the defined contribution plan. Contribution percentages were 7 percent. Employee and employer contributions totaled \$32,973 each. A fund fee of \$1,000 was also paid to ICMA by the Authority.

## Nueces River Authority

### Notes to Financial Statements

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#### Note 10. 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 33.33 percent of a participant's taxable income, or \$7,500. Contributions are made on a pretax 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 11. Major Revenue Sources

For the year ended August 31, 2016, approximately 37 percent of the Authority's revenue is related to two contracts.

#### Note 12. 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.

#### Note 13. Leakey Capital Project

During fiscal year 2010, the Authority was awarded a grant from the Texas Water Development Board (the TWDB) 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 the land for \$2,304,622.

During the fiscal year ended August 31, 2012, the TWDB approved a resolution of a request from the Authority for \$11,043,460 in financial assistance, consisting of a \$9,961,460 loan (Loan Forgiveness Funds), with up to 100 percent 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, which was forgiven upon execution of the grant agreement.

The loan forgiveness funds were deposited in an approved escrow account to be released to the Authority's Construction Fund at the direction of the Executive Administrator of the TWDB or an authorized and designated representative. In accordance with Exhibit F—Escrow Agreement of the Loan Forgiveness Agreement (TWDB Contract No. G110033), the funds deposited into the escrow account under this contract shall not be considered as a banking deposit by the Authority. Accordingly, these funds have not been recorded in the financial statements of the Authority as of August 31, 2016.

**Nueces River Authority**

**Notes to Financial Statements**

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**Note 13. Leakey Capital Project (Continued)**

During the year ended August 31, 2016, the Authority had expenditures of \$2,259,998 related to this project. The Authority estimates the total project costs to be approximately \$32,500,000. The Authority has applied for additional funding from the TWDB's Economically Distressed Areas Program to cover the remaining estimated cost of the project.

**Note 14. Construction Commitments**

As of August 31, 2016, the Authority had commitments under the terms of an agreement for the construction of the following project:

<u>Project Name</u>	<u>Contract Amount</u>	<u>Paid to Date</u>	<u>Commitment Balance Remaining*</u>
Leakey Wastewater Facility	<u>\$ 7,825,393</u>	<u>\$ (1,754,058)</u>	<u>\$ 6,071,335</u>

\*The remaining balance includes the retainage amount payable at August 31, 2016. This amount is expected to be paid by the funding outlined in the footnote above.

**Required Supplementary Information**

**Nueces River Authority**

**Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP) and Actual—  
General Fund  
Year Ended August 31, 2016**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues:</b>				
Contracted services:				
Intergovernmental	\$ 705,790	\$ 694,310	\$ 645,564	\$ (48,746)
Public education programs	270,300	319,326	309,217	(10,109)
Grant revenues	159,688	129,488	130,369	881
Investment income	29,400	22,166	16,718	(5,448)
Other income	3,000	10,000	19,734	9,734
<b>Total revenues</b>	<b>1,168,178</b>	<b>1,175,290</b>	<b>1,121,602</b>	<b>(53,688)</b>
<b>Expenditures:</b>				
Protection and preservation of water resources:				
Salaries	474,140	474,140	474,140	
Payroll taxes	35,239	36,330	36,285	45
Employee medical insurance	55,876	53,246	53,246	
Retirement	33,974	33,974	33,973	1
Directors' fees, travel and meetings	18,300	18,972	18,843	129
Travel and conferences	16,000	12,747	12,562	185
Professional fees	93,077	72,942	72,942	
SCRWSPG contributions	1,000	494	430	64
Edwards Aquifer RIP	1,000	1,000	1,000	
Telephone and fax	15,520	14,316	14,316	
Dues, subscriptions and publications	3,600	2,373	2,383	(10)
Insurance and bonds	9,800	9,564	9,564	
Equipment and facilities rent	42,094	41,248	41,248	
Office supplies and postage and delivery	5,000	3,264	3,066	198
Repairs and maintenance	500	603	603	
Binding and printing	2,700	1,437	1,294	143
Miscellaneous	1,500	1,297	1,291	6
Clean Rivers Program expenses	63,683	61,475	61,400	75
Public education programs	222,745	286,371	287,869	(1,498)
Senate Bill 1 expenses	2,000	3,053	2,988	65
Texas State Soil and Water Conservation Board	20,685	8,745	6,122	2,623
San Miguel Creek	840	353	353	
Petronila Creek	7,156	6,172	6,196	(24)
CBBEP	28,200	9,490	9,490	
SEP	7,150	4,006	4,012	(6)
Oso Creek		11,352	12,311	(959)
<b>Total expenditures</b>	<b>1,161,779</b>	<b>1,168,964</b>	<b>1,167,927</b>	<b>1,037</b>
<b>Excess of revenues over expenditures</b>	<b>6,399</b>	<b>6,326</b>	<b>(46,325)</b>	<b>(52,651)</b>
<b>Other financing uses:</b>				
Transfers out			(17,728)	(17,728)
<b>Net change in fund balance</b>	<b>6,399</b>	<b>6,326</b>	<b>(64,053)</b>	<b>(70,379)</b>
Fund balance at beginning of year	1,723,353	1,723,353	1,723,353	
Fund balance at end of year	\$ 1,729,752	\$ 1,729,679	\$ 1,659,300	\$ (70,379)

**Other Supplementary Information**

**Nueces River Authority**

**Comparative Schedule of Revenues and Expenditures—General Fund  
Five-Years Ended August 31**

	2016	2015	2014	2013	2012
<b>Revenues:</b>					
Contracted services:					
Intergovernmental	\$ 645,564	\$ 997,423	\$ 759,309	\$ 786,818	\$ 713,650
Public education programs	309,217	378,312	299,182	252,490	247,741
Special project					15,901
Grant revenues	130,369				
Investment income	16,718	20,108	25,081	(10,482)	24,972
Other income	19,734	3,000	4,500	15,045	15,982
<b>Total revenues</b>	<b>1,121,602</b>	<b>1,398,843</b>	<b>1,088,072</b>	<b>1,043,871</b>	<b>1,018,246</b>
<b>Expenditures:</b>					
Protection and preservation of water resources:					
Salaries	474,140	468,054	453,323	456,096	433,417
Payroll taxes	36,285	36,345	35,005	35,673	33,947
Employee medical insurance	53,246	51,695	51,057	49,031	50,971
Retirement	33,973	31,389	30,575	31,004	26,722
Directors' fees, travel and meetings	18,843	16,545	14,511	17,431	10,933
Travel and conferences	12,562	16,461	15,770	17,864	17,757
Professional fees	72,942	246,413	121,558	96,010	55,153
SCRWSPG contributions	430	476	412	484	1,158
Edwards Aquifer RIP	1,000	1,000	1,000	1,000	
Telephone and fax	14,316	12,566	11,792	12,269	14,047
Dues, subscriptions and publications	2,383	3,620	2,197	2,614	2,540
Insurance and bonds	9,564	9,794	6,686	8,299	10,453
Equipment and facilities rent	41,248	41,286	42,321	41,667	44,703
Office supplies and postage and delivery	3,066	2,654	1,186	8,374	3,251
Repairs and maintenance	603	2,544	300	437	3,373
Binding and printing	1,294	2,482	2,231	4,643	3,823
Miscellaneous	1,291	2,051	1,300	5,930	1,753
Clean Rivers Program expenses	61,400	77,476	61,841	78,159	62,258
Public education programs	287,869	312,752	212,914	176,146	162,982
Senate Bill 1 expenses	2,988	5,381	3,232	1,920	13,404
Aransas Creek				6,013	2,814
Texas State Soil and Water Conservation Board	6,122	38,241	11,653	4,084	
Coastal Bend Bays and Estuaries Program				6,497	
San Miguel Creek	353	1,185	3,268		
Petronila Creek	6,196	12,541	338	2,577	
Source water protection				2,408	27,377
CBBEP	9,490				
SEP	4,012				
Oso Creek	12,311				
Capital outlay					6,037
<b>Total expenditures</b>	<b>1,167,927</b>	<b>1,392,951</b>	<b>1,084,470</b>	<b>1,066,630</b>	<b>982,836</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ (46,325)</b>	<b>\$ 5,892</b>	<b>\$ 3,602</b>	<b>\$ (22,759)</b>	<b>\$ 35,410</b>



**Nueces River Authority**

**Insurance Coverage—Unaudited  
August 31, 2016**

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*	\$ 20,000,000	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.

