

Nueces River Authority

Annual Financial Report

August 31, 2018

Table of Contents

	Page
Financial Section	
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Notes to the Financial Statements.....	16
Required Supplemental Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (GAAP) and Actual – General Fund	35
Other Supplementary Information	
Comparative Schedule of Revenues and Expenditures – General Fund	36
Insurance Coverage – Unaudited.....	37
Single Audit Compliance Information	
Schedule of Expenditures of Federal Awards.....	38
Notes to the Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs.....	40
Summary Schedule of Prior Audit Findings.....	47

Table of Contents

	Page
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>	48
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	50

Financial Section



**Haynie &
Company**

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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, 2018, 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.

Independent Auditor's Report (Continued)

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 judgement, including the assessment of the risks 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 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, all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of August 31, 2018, 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 4 through 9 and page 35, 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 responsibilities 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 assurance.

Independent Auditor's Report (Continued)

Other Supplementary Information

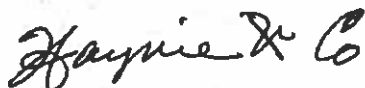
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The comparative schedule of revenues and expenditures - General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The comparative schedule of revenues and expenditures - General Fund and the 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 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 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 12, 2018, 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 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.



San Antonio, Texas
December 12, 2018

NUECES RIVER AUTHORITY

Management's Discussion and Analysis

August 31, 2018

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, 2018. 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, 2018, by \$16,044,623. Of this amount, \$1,283,957 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 \$3,062,809 in fiscal year 2018. 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 2018, the Authority's Governmental Funds reported a combined ending fund balance of \$1,340,695, a decrease of \$328,098 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 governmental 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

August 31, 2018

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.
- 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.

NUECES RIVER AUTHORITY

Management's Discussion and Analysis

August 31, 2018

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 \$16,044,623 at the end of 2018 (see Table A-1)

There is \$14,760,666 of investment in capital assets. Further, \$1,283,957 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		
	2018	2017	% Change
Current and Other Assets	\$ 2,270,063	\$ 2,776,835	-18%
Capital Assets, Net	14,760,666	11,367,423	30%
Total Assets	<u>17,030,729</u>	<u>14,144,258</u>	
Current Liabilities	986,106	1,162,444	-15%
Total Liabilities	<u>986,106</u>	<u>1,162,444</u>	
Net Position:			
Invested in Capital Assets,			
Net of Related Debt	14,760,666	11,367,423	30%
Unrestricted	1,283,957	1,614,391	-20%
Total Net Position	<u>\$ 16,044,623</u>	<u>\$ 12,981,814</u>	

NUECES RIVER AUTHORITY
Management's Discussion and Analysis
August 31, 2018

Changes in net position: The Authority's net position increased by \$3,062,809, or 24 percent (see Table A-2). The increase is related primarily to an increase in reimbursed funds for additional construction in progress in the Leakey Capital Project Fund.

Table A-2 – Information About Changes in Net Position

	Governmental Activities		
	2018	2017	% Change
Revenues:			
Program Revenues:			
Charges for services	\$ 867,068	\$ 920,023	-6%
Operating grants and contributions	318,088	111,716	185%
Capital grants and contributions	3,172,727	5,405,911	-41%
General Revenues:			
Investment Income	2,408	9,793	-75%
Other Income	4,971	9,013	-45%
Total Revenue	<u>4,365,262</u>	<u>6,456,456</u>	
Expenses	<u>1,302,453</u>	<u>1,208,131</u>	8%
Change in Net Position	3,062,809	5,248,325	
Net Position - Beginning	<u>12,981,814</u>	<u>7,733,489</u>	68%
Net Position - Ending	<u><u>\$ 16,044,623</u></u>	<u><u>\$ 12,981,814</u></u>	24%

The Authority's total program revenues were \$4,357,883, which is a decrease of \$2,079,767 compared to 2017. This decrease is due to a reduction in construction activity at the Leakey Wastewater Facility. Program revenues consisted mainly of \$706,069 in intergovernmental contracted services, \$3,490,815 in grant revenues and \$160,999 in public education programs' contracted services. Charges for service revenues were \$867,068, which is a decrease of \$52,955 compared to 2017. The decrease in capital grants and contributions revenues was the result of reduced construction activity related to the Leakey Project, which is federally funded. Approximately 20 percent of the Authority's program revenues came from charges for services with 7 percent from operating grants and contributions, and the remaining 73 percent from capital grants and contributions.

NUECES RIVER AUTHORITY

Management's Discussion and Analysis

August 31, 2018

The Authority's expenses totaled \$1,302,453, which is an increase of \$94,322 compared to 2017. Four large expense items included salaries, in the amount of \$498,441; public education programs fees in the amount of \$123,155; professional fees, in the amount of \$45,436; and Clean River Program expenses, in the amount of \$103,659.

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 \$1,340,695, a decrease of \$328,098 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 \$1,170,581 and final budget of \$1,317,604, ending the year with \$1,311,421 in actual costs.

Capital Assets

As of August 31, 2018, capital assets approximated 87 percent of total assets in the governmental activities. The \$14,760,666 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 \$3,401,035 relating to the acquisition of easements, construction in progress and equipment on the Leakey Wastewater Treatment Plant and Incode software.

Economic Factors and Next Year's Budget

During the fiscal year ended August 31, 2016, the Authority received a \$16,547,000 Economically Distressed Areas Program (EDAP) grant from Texas Water Development Board (TWDB Commitment No. G1000461) to fund engineering, construction, and inspections related to its Leakey Regional Wastewater Project. The funds were deposited in an approved escrow account to be released to the Authority at the direction of TWDB's Executive Administrator or an authorized and designated representative. In accordance with Exhibit E of the Escrow Agreement, the deposited funds shall not be considered as a banking deposit by the Authority.

NUECES RIVER AUTHORITY

Management's Discussion and Analysis

August 31, 2018

Accordingly, these funds have not been recorded in the financial statements of the Authority.

In fiscal year 2018, the Authority expected to receive a grant and loan from the U.S. Department of Agriculture-Rural Development (USDA-RD) to fund hookups of residential properties to its Leakey Regional Wastewater Project. USDA-RD has approved a grant of \$2,072,000 and a loan of \$260,000. The loan will be payable over 40 years at an expected 2.50% interest rate. Payments during the first two years will be interest only. That grant and loan was not received in Fiscal Year 2018 and is expected to be received in Fiscal Year 2019. In Fiscal Year 2018, the Authority's Board of Directors authorized issuance of Nueces River Authority Regional Wastewater System Revenue Bonds in the aggregate principal amount of \$260,000 to fund the loan.

In Fiscal Year 2019, the wastewater treatment plant and collection system is expected to be completed and fully operational and some revenue will start being received from the project.

Other than the activities described, above, and their associated expenses, there are no other known or anticipated economic factors affecting next year's budget. It is anticipated that revenues and expenses relating to the Authority's Clean Rivers Program and Education and Resource Protection Program will be similar to that experienced in Fiscal Year 2018.

Contacting the Authority's Financial Management

The financial report is designed to provide the public with a general overview of the Authority's finances and to determine 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.

Financial Statements

Nueces River Authority
Statement of Net Position
August 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 290,467
Investments	959,970
Prepaid Expenses	300
Receivables:	
Contract and Grant	1,010,747
Accrued Interest	8,579
Total Current Assets	<u>2,270,063</u>
Capital Assets:	
Land	2,621,799
Construction in Progress	11,997,699
Furniture and Equipment	166,608
Software	116,551
Less Accumulated Depreciation	<u>(141,991)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>14,760,666</u>
Total Assets	<u>17,030,729</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	834,214
Unearned Income	95,154
Accrued Compensated Absences	56,738
Total Liabilities	<u>986,106</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	14,760,666
Unrestricted	<u>1,283,957</u>
Total Net Position	<u>\$ 16,044,623</u>

The accompanying notes are an integral part of the financial statements.

Nueces River Authority
Statement of Activities
August 31, 2018

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental Activities					
Protection and Development of Water Resources	\$ 1,302,453	\$ 867,068	\$ 318,088	\$ 3,172,727	\$ 3,055,430
Total Governmental Activities	<u>\$ 1,302,453</u>	<u>\$ 867,068</u>	<u>\$ 318,088</u>	<u>\$ 3,172,727</u>	<u>\$ 3,055,430</u>
General Revenues					
Investment Income					2,408
Other Income					4,971
Total General Revenues					<u>7,379</u>
Change in Net Position					3,062,809
Net Position - Beginning					12,981,814
Net Position - Ending					<u><u>\$ 16,044,623</u></u>

The accompanying notes are an integral part of the financial statements.

Nueces River Authority
Balance Sheet
Governmental Funds
August 31, 2018

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 290,126	\$ 341	\$ 290,467
Investments	959,970	-	959,970
Prepaid Expenses	300	-	300
Receivables:			
Contract and Grant	216,492	794,255	1,010,747
Accrued Interest	8,579	-	8,579
Due from Leakey Capital Project Fund	76,229	-	76,229
Total Current Assets	1,551,696	794,596	2,346,292
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 116,259	\$ 717,955	\$ 834,214
Unearned Income	94,742	412	95,154
Due to General Fund	-	76,229	76,229
Total Liabilities	211,001	794,596	1,005,597
FUND BALANCES			
Unassigned	1,340,695	-	1,340,695
Total Fund Balances	1,340,695	-	1,340,695
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,551,696	\$ 794,596	2,346,292

The accompanying notes are an integral part of the financial statements.

Nueces River Authority
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of
Net Position
August 31, 2018

Total fund balances - Governmental Funds balance sheet	1,340,695
<p style="margin-left: 20px;">Amounts reported for governmental activities in the statement of net position are different due to:</p>	
Capital assets, net of accumulated depreciation, are used in government activities, but are not reported in the funds	14,760,666
Payables for accrued compensated absences, which are not due and payable with current period resources, are not reported in the funds.	<u>(56,738)</u>
Net Position of Governmental Activities - Statement of Net Position	\$ <u><u>16,044,623</u></u>

The accompanying notes are an integral part of the financial statements.

Nueces River Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
August 31, 2018

	General Fund	Leakey Capital Project Fund	Total Governmental Funds
REVENUES			
Contracted Services:			
Intergovernmental	\$ 706,069	\$ -	\$ 706,069
Public Education Programs	160,999	-	160,999
Grant Revenues	318,088	3,172,727	3,490,815
Investment Income	2,408	-	2,408
Other Income	4,971	-	4,971
Total Revenues	<u>1,192,535</u>	<u>3,172,727</u>	<u>4,365,262</u>
EXPENDITURES			
Protection and Preservation of Water Sources:			
Salaries	498,441	-	498,441
Payroll taxes	40,745	-	40,745
Employee medical insurance	62,775	-	62,775
Retirement	35,849	-	35,849
Directors' fees, travel and meetings	10,911	-	10,911
Travel and conferences	16,819	-	16,819
Professional fees	45,436	-	45,436
SCRWSPG contributions	210	-	210
Edwards Aquifer RIP	1,000	-	1,000
Telephone and fax	10,696	-	10,696
Dues, subscriptions and publications	1,933	-	1,933
Insurance and bonds	8,736	-	8,736
Equipment and Facilities Rent	43,629	-	43,629
Office supplies and postage and delivery	5,436	-	5,436
Repairs and maintenance	479	-	479
Binding and printing	1,146	-	1,146
Miscellaneous	8,119	-	8,119
Clean Rivers Program expenses	103,659	-	103,659
Public education programs	123,155	-	123,155
Senate Bill 1 expenses	64,028	-	64,028
Texas State Soil and Water Conservation Board	3,155	-	3,155
TCEQ OSSF	170,426	-	170,426
Petronilla Creek	10,214	-	10,214
Sunset Review	44,424	-	44,424
Capital Outlay	-	3,381,939	3,381,939
Total Expenditures	<u>1,311,421</u>	<u>3,381,939</u>	<u>4,693,360</u>
Excess of Revenues Over (Under) Expenditures	(118,886)	(209,212)	(328,098)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	209,212	209,212
Transfers Out	(209,212)	-	(209,212)
Total Other Financing Sources and Uses	<u>(209,212)</u>	<u>209,212</u>	<u>-</u>
Net Changes in Fund Balances	(328,098)	-	(328,098)
Fund Balances - Beginning of Year	<u>1,668,793</u>	<u>-</u>	<u>1,668,793</u>
Fund Balances - End of Year	<u>\$ 1,340,695</u>	<u>\$ -</u>	<u>\$ 1,340,695</u>

The accompanying notes are an integral part of the 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
August 31, 2018

Net change in fund balances -- total Governmental Funds	\$ (328,098)
Amounts reported for governmental activities in the statement of activities are different due to:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital Outlay	3,401,035
Depreciation Expense	(7,792)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued Compensated Absences	<u>(2,336)</u>
Change in net position of governmental activities	<u><u>\$ 3,062,809</u></u>

The accompanying notes are an integral part of the financial statements.

Nueces River Authority

Notes to Financial Statements

August 31, 2018

1. Summary of Significant Accounting Policies

Financial 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 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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

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 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:

- 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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

Governmental Funds

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

Major Governmental Funds:

- General Fund: The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.
- Leakey Capital Project Fund: The Leakey Capital Project Fund is the capital project fund of the Authority. It is used to account for all financial resources and expenditures related to the construction of the Leakey Wastewater Facility.

Measurement focus and basis of accounting

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

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 incurred.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

Net position

Net position represents the difference between assets and liabilities. Investment in capital asset, 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.

Revenues

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 the 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
Software	3 years

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

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.

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.

The Authority follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires measurement of certain assets and liabilities at fair market value using 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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

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, 2018, 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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

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.

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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

1. Summary of Significant Accounting Policies (Continued)

Fund balance (Continued)

- **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, 2018, 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 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, 2018.

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. The Authority did not have any items that qualified for reporting in this category at August 31, 2018.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

2. Deposits and Investments

The monetary assets of the Authority are held in various forms and accounts. The 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, 2018, the carrying amount of the Authority’s deposits (cash, certificates of deposit [CD’s] and interest bearing savings accounts included in temporary investments) was \$290,467, and the bank balance was \$310,433. The Authority’s cash deposits as of and for the year ended August 31, 2018, were entirely covered by FDIC insurance and/or 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 \$2,193,154.
- c. Total amount of FDIC coverage at the time of the largest combined balance was \$500,000. It is the opinion of management that solvency of this financial institution is not of particular concern at this time.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

2. Deposits and Investments (Continued)

Investments

The Authority is required by Government Code Chapter 2256, the Public Funds Investment Act (the Act), to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for CDs.

The Act determines the type 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) CD's; (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.

Credit risk

Generally, credit risk is the risk that an insurer 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	\$ 267,351	38%
Federal Home Loan Bank	Aaa	Moody's	97,143	14%
Federal Farm Credit Banks Funding Corporation	Aaa	Moody's	98,164	14%
Federal Home Loan Mortgage Corporatin	Aaa	Moody's	191,048	27%
Government National Mortgage Association	N/A	N/A	56,264	7%
			\$ 709,970	100%

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

2. Deposits and Investments (Continued)

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 of 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, 2018.

Description	Years to Maturity	Fair Value	Percentage
U.S. Treasury Notes	1 - 2 years	\$ 267,351	38%
Federal Home Loan Bank	1 - 5 years	97,143	14%
Federal Farm Credit Banks Funding Corporation	2 - 3 years	98,164	14%
Federal Home Loan Mortgage Corporatin	3 - 4 years	191,048	27%
Government National Mortgage Association	More than 4 years	56,264	8%
		\$ 709,970	100%

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

2. Deposits and Investments (Continued)

GASB Statement No. 72

The Authority follows GASB Statement No. 72, *Fair Value Measurement and Application*. 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 of August 31, 2018, is shown below:

	Total	Level 1	Level 2	Level 3
Assets:				
Debt Securities:				
U.S. Treasury Notes	\$ 267,351	-	\$ 267,351	-
Federal Home Loan Bank	97,143	-	97,143	-
Federal Farm Credit Banks Funding Corporation	98,164	-	98,164	-
Federal Home Loan Mortgage Corporatin	191,048	-	191,048	-
Government National Mortgage Association	56,264	-	56,264	-
Total Debt Securities	<u>\$ 709,970</u>	<u>\$ -</u>	<u>\$ 709,970</u>	<u>-</u>

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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

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, 2018, contract receivables for the General Fund and Leakey Capital Project Fund were \$216,492 and \$794,255, respectively.

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, 2018 are as follows:

	Due From Other Funds	Due to Other Funds	Interfund Transfers In	Interfund Transfers Out
Major governmental funds:				
General Fund	\$ 76,229	\$ -	\$ -	\$ 209,212
Leakey Capital Projects Fund	-	76,229	209,212	-
Total	\$ 76,229	\$ 76,229	\$ 209,212	\$ 209,212

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.

5. Changes in Capital Assets

A summary of the changes in the Authority's capital assets for the year ended August 31, 2018 is shown below:

	Balance 9/1/2017	Additions	Deletions	Balance 8/31/2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 2,580,465	\$ 41,334	\$ -	\$ 2,621,799
Construction in Progress	8,773,645	3,224,054	-	11,997,699
Furniture and Equipment	150,416	19,096	(2,904)	166,608
Software	-	116,551	-	116,551
Less Accumulated Depreciation	(137,103)	(7,792)	2,904	(141,991)
	\$ 11,367,423	\$ 3,393,243	\$ -	\$ 14,760,666

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

6. Accrued Compensated Absences

The following is a summary of accrued compensated absences transactions for the year ended August 31, 2018.

	Balance 9/1/2017	Additions	Deletions	Balance 8/31/2018
Governmental Activities:				
Compensated Absences	\$ 54,402	\$ 56,738	\$ (54,402)	\$ 56,738
Total	\$ 54,402	\$ 56,738	\$ (54,402)	\$ 56,738

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

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 a 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 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 Texans 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 payments of these bonds.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

7. Conduit Debt – Lake Texana Pipeline Project (Continued)

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 \$49,675,000.

8. Operating Leases

The Authority has commitments under operating lease agreements as of August 31, 2018 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

The lease agreements provide for minimum future rental payments as of August 31, 2018, as follows:

Years Ending August 31:	
2019	47,435
2020	42,416
2021	35,422
2022	27,685
2023-2027	<u>124,695</u>
	<u><u>277,653</u></u>

Rental expenditures in 2018 totaled \$43,629 and are included in the General Fund.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

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 2018. 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.

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, 2018, nine employees of the Authority participated in the defined contribution plan. Contribution percentages were 7 percent. Employee and employer contributions totaled \$35,849 each. A fund fee of \$1,000 was also paid to ICMA by the Authority.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

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.

11. Major Revenue Source

For the year ended August 31, 2018, approximately 72 percent of the Authority's revenue is related to two contracts.

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 judgement. 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.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

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 \$9,961,460 of Loan Forgiveness Funds 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.

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 in the escrow account under the 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, 2018.

During the year ended August 31, 2018, the Authority had expenditures of \$3,265,388 related to this project. The Authority estimates the total project costs to be approximately \$32,500,000.

14. Construction Commitments

As of August 31, 2018, the Authority had commitments under the terms of an agreement for the construction of the following project:

Project Name	Contract Amount	Paid to Date	Commitment Balance Remaining
Leakey Wastewater Facility	\$ 11,445,955	\$ 9,788,983	\$ 1,656,972

*The remaining balance includes the retainage amount payable at August 31, 2018. This amount is expected to be paid by the funding outlined in the footnote above.

Nueces River Authority
Notes to Financial Statements (continued)
August 31, 2018

15. TWDB Compliance

The Authority is compliant with applicable requirements of Section 16.356 of the Texas Water Development Board Code relating to transfers of funds associated with EDAP funded projects. For fiscal year 2018, the facility is still under construction and no revenues have been earned to date.

16. Line of Credit

The Authority has a line of credit with a bank providing for borrowings up to \$250,000. The Authority has not exercised use of the line of credit as of August 31, 2018. The line of credit is collateralized by a \$250,000 certificate of deposit.

17. Subsequent Events

Management has evaluated subsequent events through December 12, 2018, which is the date the financial statements were available to be issued. No such events have occurred subsequent to the balance sheet date and through the date of the Authority's evaluation that would require adjustment to, or disclosure in, the financial statements.

Supplementary Information

Nueces River Authority
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget
(GAAP) and Actual
General Fund
August 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Contracted Services:				
Intergovernmental	\$ 566,908	\$ 714,208	\$ 706,069	\$ (8,139)
Public Education Programs	351,247	387,915	160,999	(226,916)
Grant Revenues	114,229	104,070	318,088	214,018
Investment Income	11,440	13,740	2,408	(11,332)
Other Income	3,000	4,970	4,971	1
Total Revenues	1,046,824	1,224,903	1,192,535	(32,368)
EXPENDITURES				
Protection and preservation of water sources:				
Salaries	497,847	498,447	498,441	6
Payroll taxes	37,145	38,562	40,745	(2,183)
Employee medical insurance	62,066	62,775	62,775	-
Retirement	35,850	35,850	35,849	1
Directors' fees, travel and meetings	14,300	14,700	10,911	3,789
Travel and conferences	11,500	12,500	16,819	(4,319)
Professional fees	36,000	39,642	45,436	(5,794)
SCRWSPG contributions	500	250	210	40
Edwards Aquifer RIP	1,000	1,000	1,000	-
Telephone and fax	10,903	10,803	10,696	107
Dues, subscriptions and publications	2,000	2,100	1,933	167
Insurance and bonds	9,000	8,800	8,736	64
Equipment and Facilities Rent	43,041	43,470	43,629	(159)
Office supplies and postage and delivery	3,450	5,094	5,436	(342)
Repairs and maintenance	750	750	479	271
Binding and printing	1,700	1,300	1,146	154
Miscellaneous	1,500	8,195	8,119	76
Clean Rivers Program expenses	70,117	101,942	103,659	(1,717)
Public education programs	136,875	122,000	123,155	(1,155)
Senate Bill 1 expenses	3,000	71,900	64,028	7,872
Texas State Soil and Water Conservation Board	14,025	3,163	3,155	8
TCEQ OSSF	117,820	179,690	170,426	9,264
Petronilla Creek	10,192	10,247	10,214	33
Sunset Review	50,000	44,424	44,424	-
Total Expenditures	1,170,581	1,317,604	1,311,421	6,183
Excess of Revenues Over (Under) Expenditures	(123,757)	(92,701)	(118,886)	(26,185)
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(209,212)	(209,212)
Total Other Financing Sources and Uses	-	-	(209,212)	(209,212)
Net Changes in Fund Balances	(123,757)	(92,701)	(328,098)	(235,397)
Fund Balances - Beginning of Year	1,668,793	1,668,793	1,668,793	-
Fund Balances - End of Year	1,545,036	1,576,092	1,340,695	(235,397)

See Independent Auditor's Report

Nueces River Authority
Comparitive Schedule of Revenues and Expenditures
General Fund
Five-Years Ended August 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES					
Contracted Services:					
Intergovernmental	\$ 706,069	\$ 733,719	\$ 645,564	\$ 997,423	\$ 759,309
Public Education Programs	160,999	256,291	309,217	378,312	299,182
Grant Revenues	318,088	111,716	130,369	-	-
Investment Income	2,408	9,793	16,718	20,108	25,081
Other Income	4,971	9,013	19,734	3,000	4,500
Total Revenues	<u>1,192,535</u>	<u>1,120,532</u>	<u>1,121,602</u>	<u>1,398,843</u>	<u>1,088,072</u>
EXPENDITURES					
Protection and preservation of water sources:					
Salaries	498,441	474,146	474,140	468,054	453,323
Payroll taxes	40,745	35,979	36,285	36,345	35,005
Employee medical insurance	62,775	56,423	53,246	51,695	51,057
Retirement	35,849	34,189	33,973	31,389	30,575
Directors' fees, travel and meetings	10,911	8,481	18,843	16,545	14,511
Travel and conferences	16,819	11,338	12,562	16,461	15,770
Professional fees	45,436	90,849	72,942	246,413	121,558
SCRWSPG contributions	210	160	430	476	412
Edwards Aquifer RIP	1,000	1,000	1,000	1,000	1,000
Telephone and fax	10,696	14,375	14,316	12,566	11,792
Dues, subscriptions and publications	1,933	1,765	2,383	3,620	2,197
Insurance and bonds	8,736	7,797	9,564	9,794	6,686
Equipment and Facilities Rent	43,629	49,546	41,248	41,286	42,321
Office supplies and postage and delivery	5,436	3,298	3,066	2,654	1,186
Repairs and maintenance	479	110	603	2,544	300
Binding and printing	1,146	977	1,294	2,482	2,231
Miscellaneous	8,119	4,810	1,291	2,051	1,300
Clean Rivers Program expenses	103,659	78,289	61,400	77,476	61,841
Public education programs	123,155	189,051	287,869	312,752	212,914
Senate Bill 1 expenses	64,028	2,709	2,988	5,381	3,232
Texas State Soil and Water Conservation Board	3,155	8,011	6,122	38,241	11,653
TCEQ OSSF	170,426	1,451	-	-	-
San Miguel Creek	-	-	353	1,185	3,268
Petronilla Creek	10,214	8,834	6,196	12,541	338
CBBEP	-	3,493	9,490	-	-
SEP	-	1,998	4,012	-	-
Special Study	-	5,972	-	-	-
Oso Creek	-	-	12,311	-	-
Sunset Review	44,424	-	-	-	-
Total Expenditures	<u>1,311,421</u>	<u>1,095,051</u>	<u>1,167,927</u>	<u>1,392,951</u>	<u>1,084,470</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (118,886)</u>	<u>\$ 25,481</u>	<u>\$ (46,325)</u>	<u>\$ 5,892</u>	<u>\$ 3,602</u>

Nueces River Authority
Insurance Coverage
Unaudited
August 31, 2018

Type of Coverage	Insurer			
	Amount of Coverage	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	\$ 622,662	Texas Water Conservation Association	Risk Management Fund	No
Public official bond -- board members	\$ 100,000	Old Republic Surety Company	Stock	No
Commercial crime policy	\$ 25,000	Old Republic Surety Company	Stock	No

See Independent Auditor's Report

Nueces River Authority
Single Audit Compliance Information
Schedule of Expenditures of Federal Awards
August 31, 2018

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Environmental Protection Agency:			
Pass through:			
Texas Water Development Board Capitalization Grants for Clean Water State Revolving Funds	66.458	G11033	623,511
Texas State Soil and Water Conservation Board Water Protection Plan	66.460	12-05	287,370
Total Environmental Protection Agency			<u>910,881</u>
Department of the Interior:			
Pass through:			
Texas Parks and Wildlife Department Boating Access	15.605	470934	12,478
Landowner Incentive Program - Frio/Sabinal	15.631	431319	17,233
Total Department of the Interior			<u>29,711</u>
Total Expenditures of Federal Awards			<u><u>\$ 940,592</u></u>

Nueces River Authority
Single Audit Compliance Information
Notes to the Schedule of Expenditures of Federal Awards
August 31, 2018

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal and grant activity of the Authority under the programs of the federal government the year ended August 31, 2018. The information in this SEFA is presented in accordance with the requirements of the *Uniform Guidance*. Because the SEFA presents only a select portion of the operations of the Authority, it is not intended to and does not present the financial position or changes in net position of the Authority.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* or cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as reimbursements.

The Authority did not elect to use the 10% de minimus indirect cost rate.

Nueces River Authority
Single Audit Compliance Information
Schedule of Findings and Questioned Costs
August 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:	
Type of Auditors’ Report Issued on Financial Statements	Unmodified
Internal Control over Financial Reporting:	
Material Weaknesses	None
Significant Deficiencies Identified that are not Considered to be Material Weaknesses	No
Noncompliance Material to Financial Statements	None
Federal Awards:	
Internal Control over Major Programs:	
Material Weaknesses	None
Significant Deficiencies Identified that are not Considered to be Material Weaknesses	None
Type of Auditor’s Report Issued on Compliance for Major Programs	Unmodified
Findings and Questioned Costs for Federal Awards as Defined by the Uniform Guidance:	None
Identification of Major Programs:	Capitalization Grants for Clean Water State Revolving Funds, CFDA No. 66.458
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Low Risk Auditee Statements	Yes

Nueces River Authority
Single Audit Compliance Information
Schedule of Findings and Questioned Costs
August 31, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal Award findings.

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

Significant Deficiencies in Internal Control

Finding 2016-001—Inadequate Capital Asset Subsidiary Ledger

Criteria: Under governmental accounting principles generally accepted in the United States of America (GAAP), the Authority is required to report its capital assets within the government-wide statement of net position and other required footnotes.

Condition: The Authority could not provide a complete capital asset subsidiary ledger. Consequently, the Authority did not have formal internal processes to determine the related annual depreciation expense and information required to compile the capital asset rollforward.

Context: During our testing of capital assets, we noted the following internal processes were not complete at year-end:

- A complete annual inventory to determine all capital assets listed on the subsidiary ledger are still in service;
- Calculation of annual depreciation, and;
- Compilation of annual capital asset rollforward.

Cause and Effect: In the absence of these internal controls, a misstatement on the government-wide statement of net position and in the required capital asset footnotes is possible.

Recommendation: We recommend the Authority design and implement the following:

- Compilation and annual maintenance of a complete capital asset subsidiary ledger for all capital assets. This detailed subsidiary ledger should include all relevant information necessary to report and disclose capital assets (e.g., asset description, historical cost, accumulated depreciation, net book value, useful life and acquisition date).
- Processes and procedures to ensure an annual inventory of capital assets is performed. Additionally, any items identified as missing or no longer in service should be reviewed by management to determine if they should be removed from the capital asset subsidiary ledger.

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2018.

2018 Status: This issue was resolved during fiscal year 2018.

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

Finding 2016-002—Year-End Close Process

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: We identified exceptions or missing elements to the Authority's year-end close process.

Context: During testing of year-end account balances, we noted the following audit areas where the Authority did not appear to have adequate procedures surrounding the year-end close process and periodic review of account balances:

- Accounts receivable—We noted instances where cash receipts that were received during the year were not properly applied to accounts receivable. The resulting errors identified by the audit resulted in adjustments to correct accounts receivable and revenue.
- Interfund receivables and payables—In testing of these accounts, we noted interfund receivables and payables did not properly offset. Although corrected with an audit adjustment, there were no adequate procedures at the Authority to ensure all interfund transactions are properly recorded between these accounts.

Cause and Effect: Without adequate procedures surrounding the Authority's year-end close and procedures for periodic review of account balances, misstatement of the annual financial statements due to fraud or error could exist or not be detected timely by management.

Recommendation: Management of the Authority should implement formal policies and procedures to ensure a detailed review of significant account balances is performed, at least quarterly. These procedures should include agreeing balances to subledgers or schedules/statements and ensuring adequate support exists to support the information reflected in the financial statements. Developing a process for this review will address the deficiencies in the accounts noted above.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2018.

2018 Status: The issue was resolved during fiscal year 2018

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

Finding 2016-003—Evaluate Existing Accounting System

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The Authority uses a small accounting software to maintain the general ledger and process payroll. The software does not provide users the ability to limit system access rights or perform a hard close of a fiscal year. This condition is more significant in the current year, as the Authority is experiencing increased activity in construction projects. This system will not be able to handle the financial accounting and reporting of the wastewater treatment plan currently under construction and scheduled to be complete in a few years.

Context: During discussions with management, it became apparent that all modules of the accounting software are accessible by anyone with a password. In addition, transactions can be altered or backdated and posted to a prior period, as a period close does not lock the period to future adjustments.

Cause and Effect: The accounting software could be accessed by an unauthorized individual or adjustments could be made to prior periods that would negate the validity of historical information. Misstatement of the annual financial statements due to fraud or error could exist or not be detected timely by management.

Recommendation: Management of the Authority should evaluate the current system and consider changing to a system that is more in line with the future operations of the Authority. This evaluation should also focus on ensuring the Authority's accounting software maximizes the productivity of the accounting department.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2018.

2018 Status: The Authority had resolved this issue during fiscal year 2018 by implementing a new accounting system which exhibited stronger controls over user permissions.

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

Finding 2016-004—Inadequate Segregation of Duties

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: A small number of people have the primary responsibility for performing most of the accounting and financial duties. As a result, some aspects of internal accounting control that rely upon adequate segregation of duties are missing at the Authority.

Context: We noted the Director of Finance is responsible for collecting cash receipts, disbursing payments and posting transactions to the general ledger. These incompatible duties are mitigated by the fact that the Director of Finance has no check-signing authority. These procedures, although competent, lack segregation of duties for the Authority.

Cause and Effect: Without sufficient segregation of duties, the risk of errors and fraud related to the cash receipts, disbursing payments and posting transactions to the general ledger, including misappropriation of assets, could occur and not be detected in a timely manner by management.

Recommendation: Currently, management of the Authority performs several review procedures to strengthen its control systems. These procedures include the distribution of monthly financial information to the Board of Directors (the Board), the preparation of a monthly financial statement for budget analysis, the timely review and approval of payments, the receipt and opening of bank statements and timely reconciliation of the statements. The supervision and periodic review procedures currently in place help mitigate the lack of proper segregation of duties and should be continued and documented. However, in addition to these review procedures, we recommend management consider additional alternative procedures to the current internal control system and evaluate possibilities to continue to strengthen the system, particularly as the Authority continues to grow. Possibilities to consider include cross-checking between supervisory personnel of higher risk functions, as well as continued Board oversight by receiving and reviewing detailed budget-to-actual financial information on a monthly basis.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2018.

Nueces River Authority
Single Audit Compliance Information
Summary Schedule of Prior Audit Findings
August 31, 2018

2018 Status: The Authority had satisfactorily resolved this issue during fiscal year 2018 by implementing a new accounting system which exhibited stronger controls over user permissions and access rights. No issues noted during the fiscal year audit.



Certified Public Accountants (a professional corporation)
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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

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 the Nueces River Authority (the Authority), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2018.

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 opinions 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 the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 (CONTINUED)***

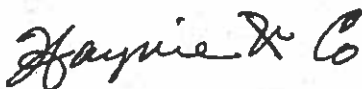
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Antonio, Texas
December 12, 2018



**Haynie &
Company**

Certified Public Accountants (a professional corporation)
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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Nueces River Authority

Report on Compliance for Each Major Federal Program

We have audited the Nueces River Authority (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended August 31, 2018. The Authority's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

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

Opinion on Each 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 each of its major federal programs for the year ended August 31, 2018.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haynie & Co

San Antonio, Texas
December 12, 2018