

THE UTILITY BOARD OF FALFURRIAS, TEXAS

*ANNUAL FINANCIAL REPORT*

*FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012*



The Utility Board of Falfurrias, Texas  
 Comprehensive Annual Financial Report  
 for the Year Ended December 31, 2013 and 2012

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**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

*Financial Section*

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

Board of Trustees  
The Utility Board of Falfurrias, Texas  
P. O. Box 518  
Falfurrias, Texas 78355

Members of the Board of Trustees:

We have audited the accompanying financial statements of the business type activities of The Utility Board of Falfurrias, Texas, Component Unit of the City of Falfurrias, Texas, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 and opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of The Utility Board of Falfurrias, Texas as of December 31, 2013 and 2012, and the changes in financial position, and the cash flows thereof for the years then ended in conformity 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 Information identified as Required Supplementary Information in the table of contents 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 consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

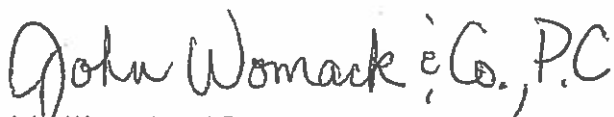
### *Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise The Utility Board of Falfurrias, Texas's basic financial statements. The accompanying supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. These supporting schedules have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by Government Auditing Standards

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated October 25, 2014, on our consideration of The Utility Board of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Utility Board of Falfurrias Texas's internal control over financial reporting and compliance.

Respectfully submitted,



John Womack and Company, P.C.  
Kingsville, Texas  
October 25, 2014



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Utility Board of Falfurrias (Utility Board) annual financial report presents management's discussion and analysis (MD&A) of the Utility Board's financial performance during the fiscal year ended December 31, 2013. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the Utility Board's Financial Statements which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Utility Board exceeded its liabilities by approximately \$13,061,769.
- The total net position of the Utility Board increased by \$94,245, or 4.8%, to \$13,061,769. The ratio of the total net position to total operating expense for 2013 is 5.4 to 1. The Utility Board's undesignated and unrestricted net position was \$3,057,414 or 99.3% of operating expenses.
- Total assets were \$13,753,097; total liabilities were \$691 thousand.
- The ratio of total assets to total liabilities for the Utility Board was 19.89 times.
- The Utility Board's quick ratio (current assets to current liabilities) was 11.07 times.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Utility Board's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, and 3) an optional section that presents detailed summaries and schedules of selected financial data.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utility Board's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The basic financial statements consist of entity-wide financial statements that provide both the short- and long- term financial information about the Utility Board's financial activities, all of which are operated like commercial enterprises. These statements report information about the Utility Board using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Utility Board's assets and liabilities, both financial and capital, and short-term and long-term are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid, are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The basic financial statements of the Utility Board include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and note to the financial statements, which are described as follows:

- The statement of net position presents the financial position of the Utility Board on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations at year-end.
- The statement of revenues, expenses, and changes in net position presents the result of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Utility Board's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.
- The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.
- The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility Board's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The supplementary information presented by the Utility Board includes schedules that focus on the individual divisions of the Utility Board where more detailed financial data is desirable, and schedules presenting the Utility Board's future debt service requirements and other data required to be presented in accordance with certain of the Utility Board's debt covenants.

### ENTITY-WIDE FINANCIAL ANALYSIS

The Utility Board's entity-wide financial statements report its net position and how they have changed over the reporting period. Net position – the difference between assets and liabilities – may serve as a useful indicator of the Utility Board's financial position. Over time, increases or decreases in the Utility Board's net position are a useful indicator of whether its financial health is improving or deteriorating respectively. However, one also needs to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation to adequately assess its overall health.

The material portion of the Utility Board's net position of 75% reflects its investment in utility plant assets (e.g., land, buildings, utility plant, and equipment), less that portion of related debt used to acquire those assets that is still outstanding. These utility plant assets are used to provide utility services to our customers; consequently, these assets are not available for future spending. Although the Utility Board's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (the sale of utility services), since the capital assets themselves cannot be used to liquidate these liabilities.

**Table A-1:  
Statement of Net Position**

	2013	2012	% Change
Current and other assets	\$ 3,444,144	\$ 2,681,068	28.46%
Restricted assets	516,499	544,168	-5.08%
Capital assets:			
Productive asset in service (net)	9,792,454	9,989,678	-1.97%
<b>Total assets</b>	<u>13,753,097</u>	<u>13,214,914</u>	4.07%
Current liabilities	511,191	253,798	101.42%
Restricted liabilities	180,137	343,594	-47.57%
Long-term debt outstanding	-	150,000	-100.00%
<b>Total liabilities</b>	<u>691,328</u>	<u>747,392</u>	-7.50%
Net position			
Invested in capital assets, net of related debt	9,792,454	9,694,678	1.01%
Restricted	211,901	369,111	-42.59%
Unrestricted	<u>3,057,414</u>	<u>2,403,733</u>	27.19%
<b>Total net position</b>	<u>\$ 13,061,769</u>	<u>\$ 12,467,522</u>	4.77%

The Utility Board's net position increased by \$594,247 in 2013, from \$12,467,522 in 2012, as a result of an excess of revenues over expenses for the current year. The Utility Board had a net increase of \$763,076 in current and other assets. The result is due to a decrease of \$162,347 in accounts receivable for TxDOT for their highway relocation of the Utility Board underground utility lines. This can be attributed to a decrease in the due from state of \$200,020 and partially offset by an increase in operating cash flow of \$484,020. The \$197,224 decrease in capital assets is due to current year depreciation of \$455,107 and capital outlay additions of \$257,883. Current liabilities increased \$257,393 primarily as a function of Due to Other Governments increase of \$200 thousand.

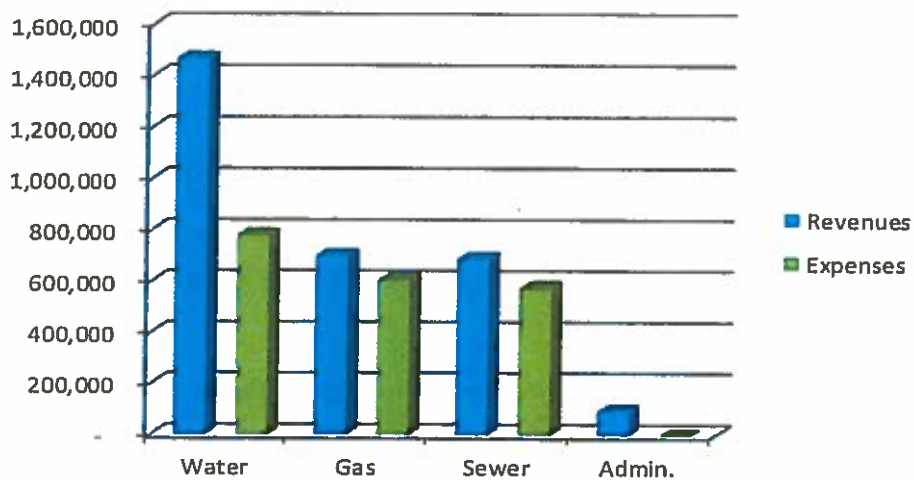
**Table A-2:  
Statements of Revenues,  
Expenses and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
<b>Revenues:</b>			
Charges for Services:			
Water	\$ 1,468,509	\$ 1,536,558	-4.43%
Wastewater	687,527	661,883	3.87%
Gas	700,218	744,466	-5.94%
Intergovernmental	-	-	0.00%
Other Charges	<u>93,097</u>	<u>103,413</u>	-9.98%
Total charges for services	<u>2,949,351</u>	<u>3,046,320</u>	-3.18%
Interest earnings	4,457	6,680	-33.28%
Other	<u>10,802</u>	<u>27,151</u>	-60.22%
Total Revenues	<u>2,964,610</u>	<u>3,080,151</u>	-3.75%
<b>Expenses:</b>			
Division operating expenses:			
Water system	782,214	570,200	37.18%
Gas system	608,066	590,658	2.95%
Wastewater system	576,142	495,889	16.18%
Depreciation	455,107	454,987	0.03%
Administrative services	-	395,621	-100.00%
Total division operating expenses	<u>2,421,530</u>	<u>2,507,355</u>	-3.42%
Interest expense	<u>123,551</u>	<u>132,971</u>	-7.08%
Total expenses	<u>2,545,081</u>	<u>2,640,326</u>	-3.61%
Increase (decrease) in net position	\$ 419,529	\$ 439,825	-4.61%
Retained Earnings/Fund Bal, beginning	12,467,526	12,027,701	3.66%
Prior period adjustment	<u>174,714</u>	-	100.00%
Retained Earnings/Fund Bal, ending	<u>13,061,769</u>	<u>12,467,526</u>	4.77%

While the statement of net position shows a snapshot of the Utility Board's financial position at the beginning and end of the fiscal year, the above statement of revenues, expenses, and changes in net position provides answers as to the nature and source of these changes. Charges for services for water were down by \$68,049 over 2012. As a result of a wetter year, water consumption was down by 8.53%. Natural gas was down \$44,248 due to an overall volume decrease in gas sold of 15.75%. The overall operating cost were down \$85,825 or 3.42%. In 2012, the Utility Board had \$395,617 in Administrative Services.

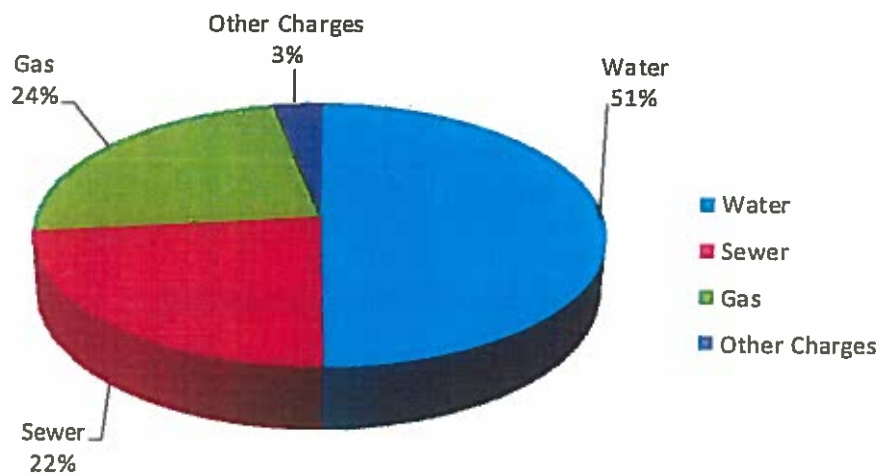
In 2013, the Administrative Services expenses were allocated to the individual Water, Sewer and Gas Departments. If the Utility Board would have prorated in the same manner in 2012 as in 2013, the increased operating expenses comparing 2013 to 2012 for the three departments would have been \$53,768 or 7.38% more for the Water Department There would have been \$38,768 or 6.25% less expenses for the Wastewater Department, and \$101,281 or 14.28% less expenses in the Gas Department.

**Graph 1: Program Revenues to Activity Expenditures**



The following is a summary of the composition of 2013 Utility Board’s revenues by source:

**Revenues – By Source  
Year Ended December 31, 2013**



During 2013, the overall demand for water and wastewater treatment services decreased. Total water sales decreased from 396,391,000 gallons in 2012 to 362,597,100 gallons in 2013, or 8.53% less than in 2012. Wastewater volume was down, and revenue was up \$25,644 or 3.87% compared to 2012. Gas sold went from 38,642,900 cubic feet in 2012 to 32,557,000 cubic feet in 2013, and gas sales were down by \$44,248 or 5.94% over 2012 due to a decrease in gas sales volume of 15.75%.

There was a slight increase in water and wastewater customers of the Utility Board from 2012. The number of gas customers went down slightly.

Utility Operating Division	2013 Customers	2012 Customers
Water System	2,540	2,527
Gas System	1,141	1,171
Wastewater System	2,036	2,018

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2013, the Utility Board's investment in capital assets amounted to \$9,792,456 which is stated net of \$9,286,618 in accumulated depreciation.

This investment in capital assets includes:

- Land and land improvements
- Water distribution facilities,
- Gas distribution facilities,
- Wastewater collection and treatment facilities, and
- Machinery and equipment

During 2013, the total net increase in the Utility Board's investment in capital assets (before depreciation) was \$241,339 compared to \$297,880 in 2012. Major capital assets categories at December 31, 2013 and 2012, included the following:

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**Table A-3:  
Capital Assets (net of depreciation)  
at December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Land and land rights	\$ 138,326	\$ 138,326	0.00%
Plant project and equipment	18,366,239	18,340,155	0.14%
Construction in Progress	574,509	359,254	59.92%
Accumulated Depreciation	<u>(9,286,618)</u>	<u>(8,848,055)</u>	4.96%
Utility plant, net	\$ <u>9,792,456</u>	\$ <u>9,989,680</u>	-1.97%

**Long-term Debt and Debt Administration**

Table A-4 indicates that total long-term debt decreased by \$295,000 from 2012 to 2013, or 100.00%. Total debt outstanding at year end 2013 was paid in full, down from \$295,000 in the prior year.

**Table A-4:  
Long-Term Liabilities at December 31, 2013 and 2012**

	<u>Total</u>	<u>% Change</u>	
	<u>2013</u>	<u>2012</u>	
Revenue Bonds	\$ <u>-</u>	\$ <u>295,000</u>	-100.00%

The Utility Board's revenue bond series 1999 were rated Aaa by Moody's, as a result of bond insurance. The debt coverage ratio is a useful indicator of the Utility Boards' debt position. At December 31, 2013, the Utility Board's debt coverage ratio was 6.17, a decrease from the 6.26 debt coverage ratio of December 31, 2012 as is summarized in the following tabulation:

**Table A-5: Debt Coverage Ratio**

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Total Revenues	\$ 2,949,351	\$ 3,046,320	-3.18%
Cost of Maintenance and Operations, not including depreciation and required payments to the City of Falfurrias	<u>1,966,423</u>	<u>2,052,371</u>	-4.19%
Net revenues	\$ <u>982,928</u>	\$ <u>993,949</u>	-1.11%
Annual debt service requirement	\$ <u>159,200</u>	\$ <u>158,700</u>	0.32%
Debt service coverage ratio (times)	<u>6.17</u>	<u>6.26</u>	-1.42%

On December 16, 2013, the City refunded \$2,873,000 in USDA Cash Advance revenue bonds by issuing \$2,935,000 in Limited Tax Refunding Bonds Series 2013 with a fixed interest of 3.6%. The net proceeds of \$2,873,000 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The refunding bonds were structured as General Obligation Refunding Bond Series 2013, and provided for the payment of the bonds by the levy of an ad valorem tax upon all taxable property within the City. It is the intent of the City, however, to convey this debt to the Utility Board in 2014 and that the Utility Board will assume responsibility to pay for any and all principal and interest regarding these bonds as it had for the previous USDA debt. The City refunded the Cash Advances to gain a net present value savings of \$119,747 and a gross savings to the City of \$1,732,195. See Note F on page 22 for more information.

#### **Outlook for 2014**

The outlook for 2014, with regard to revenues from water sales, is stable as it was for 2013. The unusually low amount of rainfall received so far in 2014 has increased the demand for water. This effect should be augmented somewhat by the continued demand for bulk water by construction activities associated with the new US HWY 281 toll road, and by the increases to water/sewer rates that became effective on September 15, 2011.

With regard to revenues from gas operations, it is estimated that gas sales will be stable compared to those of 2013. In addition, sewer operations are expected to remain relatively unchanged during 2014.

The Board's expenditures are envisioned to remain at a high level since the following projects are still in progress:

1. TXDOT utility lines relocation; and
2. Sewer plant clarifier re-vamp.

In addition to the above, the following projects are scheduled to commence during 2013:

1. Lincoln Street 8" water line replacement along with fire hydrants
2. Gas line replacement on Nava Street
3. Water line relocation in Rachal, TX
4. Water/wastewater replacement within city limits



## **THE UTILITY BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Utility Board of Falfurrias, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the Utility Board's financial condition and to demonstrate the Utility Board's accountability for the funds it receives.

If you have any questions about this report or need additional information, contact:

The City of Falfurrias  
City Administrator  
P.O. Box 518  
Falfurrias, Texas

(361) 325-2597  
(361) 325-3468 (fax)

*Basic Financial Statements*

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013 AND 2012**

EXHIBIT A-1

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
<b>ASSETS</b>		
Current assets:		
<i>Cash and cash equivalents</i>	\$ 2,362,350	\$ 1,850,002
Receivables (net of allowances for uncollectibles):		
<i>Accounts</i>	745,089	494,361
<i>Due from other governments</i>	162,347	162,347
<i>Inventories</i>	170,617	170,617
<i>Other current assets</i>	3,741	3,741
<i>Total current assets</i>	<u>3,444,144</u>	<u>2,681,068</u>
Restricted assets:		
<i>Cash and cash equivalents</i>	516,499	544,168
<i>Total restricted assets</i>	<u>516,499</u>	<u>544,168</u>
Long-term assets:		
<i>Capital assets (net, where applicable, of accumulated depreciation)</i>	9,792,454	9,989,678
<i>Other long-term assets:</i>		
<i>Total long-term assets</i>	<u>9,792,454</u>	<u>9,989,678</u>
<b>Total Assets</b>	<b>\$ <u>13,753,097</u></b>	<b>\$ <u>13,214,914</u></b>
<b>LIABILITIES</b>		
Current liabilities:		
<i>Accounts payable</i>	\$ 301,810	\$ 242,698
<i>Accrued wages</i>	6,248	6,248
<i>Accrued expenses</i>	3,113	4,852
<i>Due to other governments</i>	200,020	--
<i>Total current liabilities</i>	<u>511,191</u>	<u>253,798</u>
Payable from restricted assets:		
<i>Current portion of bonds payable</i>	--	145,000
<i>Meter deposits</i>	180,137	164,956
<i>Accrued interest payable</i>	--	33,638
<i>Total payable from restricted assets</i>	<u>180,137</u>	<u>343,594</u>
Long-term liabilities:		
<i>Revenue bonds payable</i>	--	150,000
<i>Total long-term liabilities</i>	<u>--</u>	<u>150,000</u>
<b>Total Liabilities</b>	<b><u>691,328</u></b>	<b><u>747,392</u></b>
Net Position:		
<i>Invested in capital assets, net of related debt</i>	9,792,454	9,694,678
<i>Restricted for debt service</i>	211,901	369,111
<i>Unrestricted</i>	3,057,414	2,403,733
<b>Total Net Position</b>	<b><u>13,061,769</u></b>	<b><u>12,467,522</u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>13,753,097</u></b>	<b>\$ <u>13,214,914</u></b>

The accompanying notes are an integral part of this statement.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2013 AND 2012

EXHIBIT A-2

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
<b>OPERATING REVENUES:</b>		
<i>Service revenue:</i>		
<i>Water</i>	\$ 1,468,509	\$ 1,536,558
<i>Sewer</i>	687,527	661,883
<i>Gas</i>	700,218	744,466
<i>Other income</i>	93,097	103,413
<b>Total Operating Revenues</b>	<u>2,949,351</u>	<u>3,046,320</u>
<b>OPERATING EXPENSES:</b>		
<i>Salaries</i>	469,248	482,302
<i>Production costs</i>	413,567	371,293
<i>Repairs and maintenance</i>	451,100	639,419
<i>Supplies</i>	19,907	15,954
<i>Employee benefits and taxes</i>	161,654	165,557
<i>Office expense</i>	50,009	66,659
<i>Insurance</i>	36,277	38,900
<i>Utilities</i>	19,691	21,075
<i>Professional fees</i>	146,815	68,243
<i>Operating fee to the City</i>	150,794	136,723
<i>Bad debts</i>	10,426	8,726
<i>Depreciation</i>	455,107	454,988
<i>Other expenses</i>	36,935	37,516
<b>Total Operating Expenses</b>	<u>2,421,530</u>	<u>2,507,355</u>
<b>Operating Income (Loss)</b>	<u>527,821</u>	<u>538,965</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
<i>Interest income</i>	4,457	6,680
<i>Insurance proceeds</i>	9,546	21,681
<i>Gain (loss) on sale of assets</i>	1,256	5,470
<i>Interest expense</i>	(123,551)	(132,971)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(108,292)</u>	<u>(99,140)</u>
<b>Net income</b>	419,529	439,825
<b>Net Position, January 1</b>	12,467,526	12,027,701
<b>Prior Period Adjustment</b>	174,714	--
<b>Net Position, December 31</b>	<u>\$ 13,061,769</u>	<u>\$ 12,467,526</u>

The accompanying notes are an integral part of this statement.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

**EXHIBIT A-3**

	<u>December 31</u> 2013	<u>December 31</u> 2012
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 2,878,096	\$ 3,067,256
Cash Payments to Employees for Services	(469,248)	(645,357)
Cash Payments to Other Suppliers for Goods and Services	(1,463,014)	(2,225,796)
Net Cash Provided (Used) by Operating Activities	<u>945,834</u>	<u>196,103</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
Due from Other Governments	200,020	712,203
Net Cash Provided (Used) by Non-capital Financing Activities	<u>200,020</u>	<u>712,203</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Insurance	9,546	21,681
Principal and Interest Paid	(418,551)	(267,025)
Acquisition or Construction of Capital Assets	(257,883)	(297,878)
Proceeds from the Sale of Assets	1,256	5,470
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(665,632)</u>	<u>(537,752)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and Dividends on Investments	4,457	6,680
Net Cash Provided (Used) for Investing Activities	<u>4,457</u>	<u>6,680</u>
Net Increase (Decrease) in Cash and Cash Equivalents	484,679	377,234
Cash and Cash Equivalents at Beginning of Year	2,394,170	2,016,936
Cash and Cash Equivalents at End of Year	<u>\$ 2,878,849</u>	<u>\$ 2,394,170</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 527,821	\$ 713,679
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	455,107	454,988
Bad Debt Expense	10,426	8,726
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	(86,436)	(173,640)
Decrease (Increase) in Inventories	-	35,588
Increase (Decrease) in Accounts Payable	59,112	(861,564)
Increase (Decrease) in Accrued Wages Payable	-	2,502
Increase (Decrease) in Accrued Expenses	(35,377)	4,692
Increase (Decrease) in Customer Deposits	15,181	11,132
Total Adjustments	<u>418,013</u>	<u>(517,576)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 945,834</u>	<u>\$ 196,103</u>
Cash and cash equivalents	\$ 2,362,350	\$ 1,850,002
Cash and cash equivalents - restricted	516,499	544,168
Total cash and cash equivalents	<u>\$ 2,878,849</u>	<u>\$ 2,394,170</u>

The accompanying notes are an integral part of this statement.

## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013 AND 2012

#### A. Summary of Significant Accounting Policies

The general purpose financial statements of The Utility Board of Falfurrias, Texas (the "Board") have been prepared in conformity with generally accepted accounting principles ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

##### 1. Reporting Entity

The Utility Board is a separately functioning enterprise, formed in accordance with a bond ordinance whereby \$1,300,000 of utility revenue bonds was authorized on September 7, 1949 for the City of Falfurrias to acquire the local utility system, specifically, the water and sewer systems. The bond ordinance (Section 38) generally provides that management and control of the utility system and the expenditure and application of the revenues of the system shall be placed in the hands of a Board of Trustees during such time as any bonds secured by a pledge of revenues of the system are outstanding. The natural gas system was purchased from Houston Natural Gas in 1956. The The Utility System's Board of Trustees is composed of the current Mayor of the City and four citizens of Brooks County who are nominated by the for four-year terms, with final approval made by the City Council. (See Subsequent Event Footnote M)

The Board's general purpose financial statements include the accounts of all its operations. The Board evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the Board's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the Board holds the corporate powers of the organization
- the Board appoints a voting majority of the organization's board
- the Board is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Board
- there is fiscal dependency by the organization on the Board

Based on these criteria, the Board has no component units. However, the Board is a component unit of the City of Falfurrias, Texas, as defined by the GASB Statement. The Utility Board provides monthly transfers of 4.7% of utility system revenues (water and sewer) as an operational fee to the City. Furthermore, the City does not subsidize any utility function through general tax revenues, nor does it have oversight over the Utility Board's budget. The City, however, does have ultimate authority over the issuance of bonded indebtedness. As of November, 2005, the City granted the Board the right to set rates. The Utility Board performs certain services for the City at no charge, such as the collection of garbage fees with utility bills, maintenance of all fire hydrants in the City and the installation, maintenance, and provision of water to the irrigation system at the City-owned golf course. Consequently, the Utility Board is a component unit of the City of Falfurrias, Texas.

##### 2. Basis of Presentation

###### GASB Statement No. 34

The Board adopted the provisions of GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", during the fiscal year ended December 31, 2004. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management's Discussion and Analysis section, a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. It requires classification of Net Assets into three components - Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted.

## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013 AND 2012

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of a Management's Discussion and Analysis (MD&A) section providing and analysis of the Board's financial position and results of operation.

#### Fund Accounting

Board accounts are organized on the basis of a proprietary fund type which is considered a separate accounting entity. The Board has established a fund that provides a separate set of self-balancing accounts comprised of assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. Governmental resources funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The fund type utilized by the Board is described below:

The Proprietary fund type includes the following:

Enterprise Fund - is used to account for revenues and expenses related to goods or services sold to parties outside the Board. This fund is used to account for utility operations that are financed and operated in a manner similar to private business enterprises where the costs of providing water, sewer, and natural gas services to the general public, on a continuing basis, are financed through user charges.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The Board has chosen not to apply future FASB standards.

### 3. Basis of Accounting

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components.

#### Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Board's principal ongoing operations. The principal operating revenue of the Board is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Board defines operating revenues consistent with the precepts of GASB Statement No. 9, paragraphs 16 to 19 and 31: cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investment activities.

When the Board incurs an expense for which both restricted and unrestricted resources may be used, it is the Board's policy to use restricted resources first, then unrestricted resources.

## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013 AND 2012

#### 4. Accounts Receivable

Current earnings are charged with bad debts for accounts to be set aside in an allowance for doubtful accounts. Receivables are reflected in the balance sheet net of these accounts. Accounts deemed uncollectible are charged off to this allowance account.

#### 5. Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Expenditures for new equipment, improvements made to the utility system's mains and meters and those which substantially increase the useful life of existing property, plant, and equipment are capitalized. Ordinary maintenance and repairs are charged to expense when incurred. The amounts capitalized for new main extensions are based upon individual invoices incurred for the improvement of or additions to the utility system. Interest incurred during the construction of capital assets is capitalized. The amount of interest capitalized for fiscal years 2013 and 2012 was \$0 and \$0 respectively.

Depreciation of plant facilities, equipment and system meters and extensions is provided using the straight-line method with the following useful lives:

Buildings	25 years
Plant equipment	5 to 40 years
Office equipment	10 years
Mains and meters	40 years
Sewer plant	30 years

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner or duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2013 or 2012.

#### 6. Customer Meter Deposits

The Utility Board requires a deposit when new service is initiated for a customer. These deposits are usually refunded after being held for more than one year. An active program is underway to timely reimburse all old deposits. Interest is paid on the deposits, but no accrual is made. Interest paid on these deposits is accounted for on the cash basis, as the amounts are immaterial to the financial statements as a whole.

#### 7. Due to the City of Falfurrias for Garbage Collection

For convenience, the Utility Board bills for the City's garbage collection along with its charges for utility services, and these charges are included in accounts receivable. The amount of garbage billings that are unpaid and included in accounts receivable of the Utility Board is shown as a current liability.

#### 8. Due to Volunteer Fire Department

Beginning July, 1986, the Utility Board included on each monthly utility bill a \$1 charge for voluntary donations to the Falfurrias Emergency Medical Service and the Volunteer Fire Department. Effective October 1, 1995, the voluntary donations were limited to the Volunteer Fire Department. It is strictly a voluntary charge and can be ignored by the customer. All funds received each month as donations are then remitted the following month to the Volunteer Fire Department.



## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013 AND 2012

#### 9. Pension Fund Liability

The employees of the Utility Board are presently participating in a nontraditional, joint contributory, defined contribution pension plan in the state-wide Texas Municipal Retirement System. For 2013 and 2012, the Utility Board made contributions into the plan at the rate of 3.81% and 4.41% of total eligible payroll, respectively.

#### 10. Compensated Absences

Utility Board employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for any unused vacation leave accumulated during the year. Sick leave is not paid at retirement or termination. The Utility Board has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation and sick pay is charged to operations when taken by the employee.

11. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

12. Inventories on the balance sheet are stated at the lower of cost (first-in, first-out method) or market. Inventory items are recorded as expenditures when they are consumed.

#### 13. Bond Issuance Costs

Bond issuance costs are expensed in the year incurred.

14. Comparative Data - comparative totals for the prior year have been prepared in the accompanying basic financial statements in order to provide an understanding of changes in the Board's financial position and operations.

### B. Deposits and Investments

The Board'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 Board's agent bank approved pledged securities in an amount sufficient to protect Board 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.

#### 1. Cash Deposits

At December 31, 2013, the carrying amount of the Board's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,878,849 and the bank balance was \$2,977,791.

At December 31, 2012, the carrying amount of the Board's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,394,170 and the bank balance was \$2,486,788.

The Board's cash deposits at December 31, 2013 and 2012, and during the years ended December 31, 2013 and 2012, were entirely covered by FDIC insurance or by pledged collateral held by the Board's agent bank in the Board's name.

#### 2. Investments

The Board is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013 AND 2012

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Board did not adhere to the requirements of the Act. The Board has not established written policies. However, investment practices of the Board were in accordance with local policies.

The Act determines the types of investments which are allowable for the Board. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The Board had no investments at December 31, 2013 and 2012.

#### Investment Accounting Policy

The Board's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

### 3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the Board was exposed to the following specific investment risks at year end and if so, the reporting of the certain related disclosures:

#### a. Credit Risks

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At the end of the period, the System was not significantly exposed to credit risk.

#### b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Board's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Board's name.

At the end of the period, the Board was not exposed to custodial credit risk.

## THE UTILITY BOARD OF FALFURRIAS, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013 AND 2012

c. Concentration of Risk

This risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. At the end of the period, the Board was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At the end of the period, the Board was not significantly exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At the end of the period, the Board was not exposed to foreign currency risk.

C. Risk Management

The Board is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013 and 2012, the Board obtained general liability and major medical coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The Board pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The Board continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

D. Accounts Receivable

Receivables at December 31, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Accounts Receivable - Utilities	\$ 731,358	\$ 470,652
Accounts Receivable - Other	139,160	139,160
Less Allowance for Uncollectible Accounts	<u>(125,429)</u>	<u>(115,451)</u>
Accounts Receivable, Net	<u>\$ 745,089</u>	<u>\$ 494,361</u>

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2013 AND 2012**

**E. Capital Assets**

Activity in the Capital Assets for the Board for the year ended December 31, 2013, was as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Capital assets not being depreciated:				
Land	\$ 138,326	\$ --	\$ --	\$ 138,326
Construction in progress	359,254	215,255	--	574,509
Total	<u>497,580</u>	<u>215,255</u>	<u>--</u>	<u>712,835</u>
Capital assets being depreciated:				
Buildings	17,276	--	--	17,276
Machinery & equipment	1,446,902	42,628	(16,544)	1,472,986
Office equipment	136,186	--	--	136,186
Mains, meters, & extensions	14,539,712	--	--	14,539,712
Sewer Plant	2,200,079	--	--	2,200,079
Total	<u>18,340,155</u>	<u>42,628</u>	<u>(16,544)</u>	<u>18,366,239</u>
Total Capital Assets	18,837,735	257,883	(16,544)	19,079,074
Depreciation	<u>(8,848,055)</u>	<u>(455,107)</u>	<u>16,544</u>	<u>(9,286,618)</u>
Capital Assets, net of depreciation	<u>\$ 9,989,680</u>	<u>\$ (197,224)</u>	<u>\$ --</u>	<u>\$ 9,792,456</u>

Activity in the Capital Assets for the Board for the year ended December 31, 2012, was as follows:

	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
Capital assets not being depreciated:				
Land	\$ 138,326	\$ --	\$ --	\$ 138,326
Construction in progress	1,375,149	168,066	(1,183,961)	359,254
Total	<u>1,513,475</u>	<u>168,066</u>	<u>(1,183,961)</u>	<u>497,580</u>
Capital assets being depreciated:				
Buildings	17,276	--	--	17,276
Machinery & equipment	1,416,410	80,093	(49,601)	1,446,902
Office equipment	136,186	--	--	136,186
Mains, meters, & extensions	13,474,776	1,064,936	--	14,539,712
Sewer Plant	2,031,333	168,746	--	2,200,079
Total	<u>17,075,981</u>	<u>1,313,775</u>	<u>(49,601)</u>	<u>18,340,155</u>
Total Capital Assets	18,589,456	1,481,841	(1,233,562)	18,837,735
Depreciation	<u>(8,442,668)**</u>	<u>(454,988)</u>	<u>49,601</u>	<u>(8,848,055)</u>
Capital Assets, net of depreciation	<u>\$ 10,146,788</u>	<u>\$ 1,026,853</u>	<u>\$ (1,183,961)</u>	<u>\$ 9,989,680</u>

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2013 AND 2012**

**F. Bonds Payable**

Changes in long-term debt are as follows:

Type	Balance 01/01/2013	New Debt Issued	Payments	Balance 12/31/2013	Current Portion
Bonds - 1999	\$ 295,000	\$ --	\$ 295,000	\$ --	\$ --

Maturities of the Utility Revenue Bonds are as follows:

Description	December 31 2013	December 31 2012
Utility System Revenue and Refunding Bonds, issued April 28, 1999, April and October maturities with payments from \$145,000 to \$150,000 plus interest at 3.75% to 4.55%, secured by revenue of the system, paid in full in 2013	\$ --	\$ 295,000
	--	295,000
Less Deferred Issuance Cost from refunding old debt	--	--
Current Portion	--	(145,000)
Long-term portion - revenue bonds payable	\$ --	\$ 150,000

There are no debt service requirements as all debt has been paid at year end.

**Future Indebtedness:**

In April, 2008, the Utility Board pledged its net system revenues to secure \$3,052,000 in Utility System Revenue Bonds, Series 2007, at a fixed 4.125% interest rate, payable semi-annually with principal payments from \$36,000 to \$148,000 plus interest through October 1, 2028. The Bonds will be issued to pay for four major projects:

1. To construct a new 500,000 gallon elevated water tower storage tank
2. To demolish the existing 600,000 gallon elevated water tower storage tank
3. To install, city-wide, new automated gas and water meter reading system
4. Other water system improvements

The bonds are USDA and will not be finalized until the four projects covered by the bond proceeds are completed by the City of Falfurrias and the project assets are conveyed to the Utility Board. This will be completed in 2014. Related interest cost, which the Utility Board is required to pay, for the year ended December 31, 2013 and 2012, was \$144,717 and \$114,778, respectively, with the 2011 year and prior year capitalized as construction in progress. The balance of the USDA cash advances to the City of Falfurrias was \$0 and \$2,912,000 in 2013 and 2012, respectively.

In late 2013, The City of Falfurrias refunded the above USDA cash advances with a balance of \$2,912,000, of which \$39,000 was paid as a scheduled bond payment and \$2,873,000 was refunded. The refunding bonds were structured as General Obligation Refunding Bond, Series 2013, and provided for the payment of the bonds by the levy of an ad valorem tax upon all taxable property within the City. It is the intent of the City, however, to convey this debt to the Utility Board in 2014 and that the Utility Board will assume responsibility to pay for any and all principal and interest regarding these bonds as it had for the previous USDA debt.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2013 AND 2012**

The amortization of these bonds is as follows:

Year Ended December 31	General Obligation Refunding Bonds Series 2013		Total Requirements
	Principal	Interest	
2014	\$ 225,000	\$ 79,597	\$ 304,597
2015	150,000	94,860	244,860
2016	155,000	89,370	244,370
2017	165,000	83,610	248,610
2018	170,000	77,580	247,580
2019-2023	940,000	290,340	1,230,340
2024-2028	1,130,000	104,400	1,234,400
Totals	\$ 2,935,000	\$ 819,757	\$ 3,754,757

The Utility Board chose to pay off the refunding bond series 1999 one year early in the amount of \$150,000, plus accrued interest and related bond issuance costs, as part of the City of Falfurrias Series 2013 Refunding Bonds as shown above.

**G. Bond Retirement Funds**

The bond retirement funds are amounts set aside by the Board for debt service on the refunding bond, as required by the bond ordinances. One fund, a checking account, containing \$516,498 and \$544,168 at December 31, 2013 and 2012, respectively, serves as an interest and sinking fund with monies deposited monthly in sufficient amounts to pay the current years interest and maturing principal at the next scheduled ayment date. Per the Refunding Bond Ordinance it can only be used for debt service. Therefore, the amount contained in this account at December 31, 2013 and 2012, complies in full with these requirements.

**H. Accumulated Unpaid Vacation and Sick Leave Benefits**

At December 31, 2013 and 2012, the Board had no liability for accrued sick leave or vacation leave.

**I. Pension Plan**

**Plan Description**

The Board provides pension benefits for all of its elibible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Board are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available in TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED DECEMBER 31, 2013 AND 2012*

The plan provisions are adopted by the governing body of the Board, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2011	2012	2013
<u>Plan Provisions (City Specific):</u>			
2. Employee deposit rate	5%	5%	5%
3. Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
4. Years required for vesting	5	5	5
5. Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
6. Updated service credit annually repeating (Y/N)	-- N	-- N	-- N
7. Annuity increase to retirees annually repeating (Y/N)	-- N	-- N	-- N

Contributions

Under the state law governing TMRS, the contribution rate for each member is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Cost actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that member. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Board contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Board make contributions monthly. Since the Board needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and the net pension obligation/(asset) are as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
12/31/11	\$ 39,692	\$ 39,692	100.0%	\$ .
12/31/12	\$ 23,499	\$ 23,499	100.0%	\$ .
12/31/13	\$ 21,937	\$ 21,937	100.0%	\$ .





**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED DECEMBER 31, 2013 AND 2012*

The Board also participates in the cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Board elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Board may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12 month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit" or OPEB.

	<u>2013</u>	<u>2012</u>
The Board offers supplemental death to:		
active employees	Yes	Yes
retirees	Yes	Yes

**J. Summary of Other Income and Expense**

	<u>2013</u>	<u>2012</u>
<b>Other Income</b>		
Income from taps	\$ 13,375	\$ 13,524
Inspections, permits, and reconnect fees	14,433	28,034
Late fees	23,317	24,932
Miscellaneous	41,973	36,922
Total	<u>\$ 93,098</u>	<u>\$ 103,412</u>
<b>Other Expense</b>		
Dues and subscriptions	\$ 6,307	\$ 16,149
Trustee fees	6,750	7,700
Education and training	5,155	8,529
Miscellaneous	18,725	5,137
Total	<u>\$ 36,937</u>	<u>\$ 37,515</u>

**K. Restricted Assets and Reserved Retained Earnings**

	<u>2013</u>	<u>2012</u>
	<u>Refunding</u>	<u>Reserve Bond</u>
	<u>Bond Sinking</u>	<u>Sinking and</u>
	<u>Fund</u>	<u>Reserve Fund</u>
Restricted Assets:		
Cash and Cash Equivalents	\$ 516,499	\$ 544,168
Total	<u>\$ 516,499</u>	<u>\$ 544,168</u>

The ordinance authorizing the Water, Sewer, and Gas System Refunding bonds requires that the Utility Board establish a sinking fund in an amount not less than the principal and interest as such principal and interest matures. At December 31, 2013 and 2012, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2013 AND 2012**

The amount of net assets restricted for revenue bond retirement is detailed as follows:

	<u>2013</u>	<u>2012</u>
Restricted Assets, Revenue Bond Sinking and Reserve Fund	\$ --	\$ 544,168
Restricted Assets, Refunding Bond Sinking Fund	516,499	
Less:		
Accrued interest, attributable to bonds, payable from restricted assets	(79,598)	(30,057)
Current maturities of revenue and refunding bonds, payable from restricted assets	<u>(225,000)</u>	<u>(145,000)</u>
Retained Earnings Reserved for Bond Retirement	<u>\$ 211,901</u>	<u>\$ 369,111</u>

**L. Related Party Transactions - City of Falfurrias**

**Franchise Fees**

The Utility Board is under contract to pay the City of Falfurrias, Texas, a 4.7% operational fee on its gross water and sewer revenues. For 2013 and 2012, this amount was \$150,794 and \$136,723, respectively. Included in the 2013 and 2012 payments were \$39,000 and \$37,000, respectively, made by the Utility Board to the City for its scheduled USDA Cash Advance reduction.

**Free Water Service**

The Utility Board provides free water to the City of Falfurrias for all its operational needs. In 2013, the City used 33,574,040 gallons or \$117,612 value of free service. In 2012, the City used 37,602,200 gallons or \$131,723 value of free service.

**M. Subsequent Events**

The City of Falfurrias City Council voted on July 17, 2013 to refund the Utility Board's Bond Debt. The new debt does not have a stipulation keeping the City and the Utility Board from merging into one entity, thus allowing the City Council to have control over both entities, and the ability to dissolve the Utility Board as it now stands. The final consolidation was approved as of January 1, 2014.

**N. Prior Period Adjustment**

The Utility Board had incorrectly billed their largest water customer over a period of three years, including the 2011, 2012, and 2013 fiscal years. The customer was billed for this shortage, and subsequently paid this amount. As a result, a prior period adjustment in the amount of \$174,714 was made for the amounts due in the 2011 and 2012 fiscal years.

*Required Supplementary Information*

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

YEAR ENDED DECEMBER 31, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12-31-11	\$ 651,645	\$ 790,621	\$ 138,976	82.4%	\$ 474,218	29.3%
12-31-12	697,314	838,510	141,196	83.2%	470,501	30.0%
12-31-13	721,374	877,224	155,850	82.2%	454,647	34.3%

*Overall Compliance and Internal Controls Section*

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

JOHN WOMACK & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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JOHN R. WOMACK, CPA  
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(361) 592-2671  
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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

Board of Trustees  
The Utility Board of Falfurrias, Texas  
P. O. Box 518  
Falfurrias, Texas 78355

Members of the Board of Trustees:

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 business-type activities, each major fund, and the aggregate remaining fund information of The Utility Board of Falfurrias, Texas, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise The Utility Board of Falfurrias, Texas's basic financial statements, and have issued our report thereon dated October 25, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Utility Board of Falfurrias, Texas'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 Utility Board of Falfurrias, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of The Utility Board of Falfurrias, Texas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-1 to 2013-4 to be material weaknesses.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

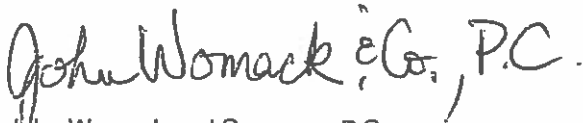
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Utility Board of Falfurrias, Texas'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-5 and 2013-6.

### 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.

Respectfully submitted,



John Womack and Company, P.C.  
Kingsville, Texas  
October 25, 2014



**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u>  X  </u> Yes	<u>    </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u>    </u> Yes	<u>  X  </u> None Reported	
Noncompliance material to financial statements noted?	<u>    </u> Yes	<u>  X  </u> No	

**2. Federal Awards**

A Single Audit was not required in the current year.

**B. Financial Statement Findings**

**2013-1 Internal Control - Cash Deposits**

Condition: The same person prepares, verifies, and delivers the deposits, as well as reconciles the bank statement.

Criteria: In order for internal controls to be effective, the individual who prepares, verifies, and delivers the daily cash deposits should not also be performing monthly bank reconciliations.

Cause: This condition is caused by the small number of personnel in the business office.

Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.

Recommendation: We recommend that a second individual be trained and made responsible for monthly bank reconciliations.

**2013-2 Internal Control - Billing Adjustments**

Condition: Billing adjustments are performed by the collections clerk without regular supervision.

Criteria: In order for internal controls to be effective, the billing adjustments should not be performed by the collections clerk.

Cause: This condition is caused by the small number of personnel in the business office.

Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.

Recommendation: We recommend that the billing adjustments performed by the collections clerk be reviewed regularly by the Superintendent who does not perform any cash collections himself.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED DECEMBER 31, 2013*

**2013-3 Internal Control - Water and Sewer Billing**

Condition: An error was discovered in the billing process for the largest water and sewer customer, resulting in a material adjustment to current year billings.

Criteria: The billing system should have established procedures designed to detect and prevent billing error:

Cause: Meter readings were leaving off the last digit, and this was unnoticed for several months.

Effect: One large customer was underbilled and a correction of the financial statements was required.

Recommendation: We recommend that the Board establish policies and procedures to detect and prevent billing errors in the event of meter or software changes.

**2013-4 Internal Control - Reconciliation of Asset and Liability Accounts**

Condition: The Board has not reconciled certain asset and liability accounts on a timely basis during the year or at year end.

Criteria: Asset and liability accounts should be reconciled timely and all related journal entries made on a timely basis.

Cause: The Board has experienced staffing changes and turnover in the accounting department, and are working toward training and crosstraining personnel.

Effect: The effect is the possibility of inaccuracy in monthly reporting, and , potentially, an inability to recognize fraud or other inaccuracies in a timely manner.

Recommendation: We recommend that the Board implement procedures to ensure personnel are provided proper training, asset and liability accounts are reconciled, and related journal entries are posted on a timely basis.

**2013-5 State Compliance - Public Funds Investment Act**

Condition: The Board did not comply with certain requirements of the Public Funds Investment Act. The Investment Officer did not obtain the required continuing education within the legal time limit. In addition, the Board does not have written documentation of the Board's approval of the Investment Officer's annual review of the investment policy and any changes resulting from that review.

Criteria: The Public Funds Investment Act requires the Investment Officer to obtain continuing education hours within a given timeframe from date of employment, and semiannually thereafter, and requires annual review and approval of the investment policy by the Board.

Cause: Lack of oversight over the Public Funds Investment Act requirements.

Effect/Potential Effect: Violation of the Public Funds Investment Act.

Recommendation: We recommend the Investment Officer obtain the required hours of continuing education. In addition, we recommend that the Board adopt a written instrument which would document the Board's approval of the Investment Officer's review of the investment policy.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED DECEMBER 31, 2013*

**2013-6 State Compliance - Bidding**

Condition: The Board has accumulated over \$50,000 in expenditures with a vendor that is not an approved vendor through a purchasing cooperative or state contract, and did not use a competitive bidding process.

Criteria: State law requires that contracts and purchases greater than \$50,000 be obtained through competitive bidding procedures.

Cause: Management did not understand that expenditures for this vendor would accumulate past the bidding threshold. It was believed that bidding requirements applied on a "per job" basis, rather than on a cumulative basis for the year.

Effect: The effect is a violation of state law and an increase in the risk of legal liability.

Recommendation: We recommend the Board more carefully monitor expenditures in order to enable identification of situations where bidding will be required. We also recommend management obtain further education regarding State procurement laws.

**C. Federal Award Findings and Questioned Costs**

NONE

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p><b>2012-1 Internal Control - Cash Deposits</b></p> <p>Condition: The same person prepares, verifies, and delivers the deposits, as well as reconciles the bank statement.</p> <p>Criteria: In order for internal controls to be effective, the individual who prepares, verifies, and delivers the daily cash deposits should not also be performing monthly bank reconciliations.</p> <p>Cause: This condition is caused by the small number of personnel in the business office.</p> <p>Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.</p> <p>Recommendation: We recommend that a second individual be trained and made responsible for monthly bank reconciliations.</p>	<p>Not Implemented</p>	<p>Due to the small number of employees, internal controls of this nature are often difficult to establish. The Utility Board will develop mitigating controls to reduce the risk of fraud or error.</p>
<p><b>2012-2 Internal Control - Billing Adjustments</b></p> <p>Condition: Billing adjustments are performed by the collections clerk without regular supervision.</p> <p>Criteria: In order for internal controls to be effective, the billing adjustments should not be performed by the collections clerk.</p> <p>Cause: This condition is caused by the small number of personnel in the business office.</p> <p>Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.</p> <p>Recommendation: We recommend that the billing adjustments performed by the collections clerk be reviewed regularly by the Superintendent who does not perform any cash collections himself.</p>	<p>Not Implemented</p>	<p>Management will work toward developing controls or mitigating controls, as described above.</p>
<p><b>2012-3 Internal Control - Natural Gas Billing</b></p> <p>Condition: Errors were discovered in the billing process for natural gas commercial customers, resulting in a material adjustment to current year billings.</p>	<p>Partially Implemented</p>	<p>Natural Gas billing corrections were made in the current year; however, a similar error occurred in the billing of the largest water &amp; sewer customer.</p>

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Criteria: The billing system should have established procedures designed to detect and prevent billing errors.</p> <p>Cause: New meters were installed that did not require calibration by the billing software, but the software was never corrected for this change.</p> <p>Effect: Commercial customers were overbilled and a correction of the financial statements was required.</p> <p>Recommendation: We recommend that the Board establish policies and procedures to detect and prevent billing errors in the event of meter or software changes.</p>		<p>Management will establish controls to reduce risk of fraud or error.</p>
<p><b>2012-4 Internal Control - Accounts Payable Cutoff</b></p>	<p>Implemented</p>	<p>N/A</p>
<p>Condition: Accounts payable cutoff at year end was not complete.</p> <p>Criteria: In order for current year expenditures to be complete, there needs to be adequate cutoff procedures at year end.</p> <p>Cause: This condition was caused by oversight by personnel.</p> <p>Effect: The effect of this oversight is a potential understatement of expenditures.</p> <p>Recommendation: We recommend that all invoices be examined at year end for proper cutoff.</p>		
<p><b>2012-5 State Compliance - Public Funds Investment Act</b></p>	<p>Not Implemented</p>	<p>Management will continue to work toward full compliance with the Act.</p>
<p>Condition: The Board did not comply with certain requirements of the Public Funds Investment Act. The Investment Officer did not obtain the required continuing education within the legal time limit. In addition, the Board does not have written documentation of the Board's approval of the Investment Officer's annual review of the investment policy and any changes resulting from that review.</p>		
<p>Criteria: The Public Funds Investment Act requires</p>		

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>the Investment Officer to obtain continuing education hours within a given timeframe from date of employment, and semiannually thereafter, and requires annual review and approval of the investment policy by the Board.</p> <p>Cause: Lack of oversight over the Public Funds Investment Act requirements.</p> <p>Effect/Potential Effect: Violation of the Public Funds Investment Act.</p> <p>Recommendation: We recommend the Investment Officer obtain the required hours of continuing education. In addition, we recommend that the Board adopt a written instrument which would document the Board's approval of the Investment Officer's review of the investment policy.</p>	<p>Not Implemented</p>	<p>Management will develop policies and procedures to ensure compliance with competitive bidding laws.</p>
<p><b>2012-6 State Compliance - Bidding</b></p> <p>Condition: The Board has accumulated approximately \$127,000 in expenditures with a vendor that is not an approved vendor through a purchasing cooperative or state contract, and did not use a competitive bidding process.</p> <p>Criteria: State law requires that contracts and purchases greater than \$50,000 be obtained through competitive bidding procedures.</p> <p>Cause: Management did not understand that expenditures for this vendor would accumulate past the bidding threshold. It was believed that bidding requirements applied on a "per job" basis, rather than on a cumulative basis for the year.</p> <p>Effect: The effect is a violation of state law and an increase in the risk of legal liability.</p> <p>Recommendation: We recommend the Board more carefully monitor expenditures in order to enable identification of situations where bidding will be required. We also recommend management obtain further education regarding State procurement laws.</p>		
<p><b>2012-7 State Compliance - Records Retention</b></p>	<p>Implemented</p>	<p>N/A</p>
<p>Condition: The Board does not have a records</p>		

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED DECEMBER 31, 2013*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>management policy approved by the governing body. Therefore, they do not have a Records Management Officer, records control schedule, records disposition procedures, a documented filing system, electronic records, essential records program, and/or disaster plan.</p> <p>Criteria: In order to comply with State guidelines, the Board must have a records management policy approved by the governing body, which includes the above items.</p> <p>Cause: The Board was unaware of the State requirements regarding records retention.</p> <p>Effect: By not having an approved records management policy in effect, the Board's records are not properly maintained or stored, increasing the risk of loss or damage to vital records.</p> <p>Recommendation: We recommend the Board implement an approved records management policy as soon as possible to ensure records are properly maintained and safeguarded.</p>		

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED DECEMBER 31, 2013*

**2013-1 Internal Control - Cash Deposits**

Another employee will be trained and made responsible for monthly bank reconciliations. The Superintendent of Utilities will coordinate these efforts.

**2013-2 Internal Control - Billing Adjustments**

The Superintendent of Utilities will regularly review and approve all billing adjustments performed by the collections clerk.

**2013-3 Internal Control - Water and Sewer Billing**

The Utility Board has determined the amount due from the customer for the periods affected and have made the appropriate entries to account for these changes. In addition, the billing software has been corrected to reflect the proper calculation for each customer.

**2013-4 Internal Control - Reconciliation of Asset and Liability Accounts**

The Board will implement procedures to ensure that personnel are provided proper training, asset and liability accounts are reconciled, and all journal entries are made on a timely basis. The Superintendent of Utilities will coordinate these efforts.

**2013-5 State Compliance - Public Funds Investment Act**

The Board will implement policies and procedures necessary to ensure full compliance with the Public Funds Investment Act. The Superintendent of Utilities will coordinate these efforts.

**2013-6 State Compliance - Bidding**

The Board will implement policies and procedures to ensure compliance with State law. The Superintendent of Utilities will coordinate these efforts.



**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**OPERATING STATEMENT**  
**LAST FIVE FISCAL YEARS**  
**(UNAUDITED)**

**TABLE C-1**

	Fiscal Year Ended				
	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09
<b>Revenues:</b>					
Water Sales	\$ 1,468,509	\$ 1,536,558	\$ 1,645,070	\$ 1,353,774	\$ 1,336,441
Sewer System	687,527	661,883	672,099	635,351	597,793
Gas System	700,218	744,466	709,548	720,369	725,465
Other Income	93,097	103,413	191,073	155,352	97,869
Total Revenues	<u>2,949,351</u>	<u>3,046,320</u>	<u>3,217,790</u>	<u>2,864,846</u>	<u>2,757,568</u>
<b>Expenses:</b>					
Production Costs	413,567	371,293	481,408	572,606	624,055
Transmission and Distribution Costs	1,552,856	1,681,078	1,908,009	1,768,388	1,355,179
Total Expenses	<u>1,966,423</u>	<u>2,052,371</u>	<u>2,389,417</u>	<u>2,340,994</u>	<u>1,979,234</u>
Net Available for Debt Service	<u>\$ 982,928</u>	<u>\$ 993,949</u>	<u>\$ 828,373</u>	<u>\$ 523,852</u>	<u>\$ 778,334</u>
Annual Debt Service	\$ 159,200	\$ 158,700	\$ 157,490	\$ 152,529	\$ 158,934
Coverage of Annual Debt Service	6.17	6.26	5.26	3.43	4.90
<b>Customer Count:</b>					
Water Customers	2,540	2,527	2,514	2,497	2,505
Sewer Customers	2,036	2,018	2,008	2,000	1,984
Gas Customers	1,141	1,171	1,191	1,226	1,239
Gallons of Water Pumped (000)	450,418	508,069	540,689	435,737	551,081
Gas Purchased (Thousand Cu Ft)	44,140	41,930	44,484	49,494	46,193
Gas Sold (Thousand Cu Ft)	32,620	35,636	34,911	35,674	34,077

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*CAPITAL ASSETS*  
*AS OF DECEMBER 31, 2013*  
*(UNAUDITED)*

**TABLE C-2**

	December 31, 2013
Land	\$ 138,326
Buildings	17,276
Machinery and Equipment	1,472,986
Office Equipment	136,186
Mains and Meters Extensions	14,539,712
Sewer Plant	2,200,079
Construction in Progress	574,509
Total	<u>19,079,074</u>
Less: Accumulated Depreciation	<u>(9,286,618)</u>
Net Capital Assets	<u>\$ 9,792,456</u>

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
 TOP TEN WATER USERS  
 AS OF DECEMBER 31, 2013  
 (UNAUDITED)

TABLE C-3

Name	Product	Gallons
City of Falfurrias Golf Course	Golf Course	23,996,500
Falfurrias Cemetary	Cemetary	13,598,200
Brooks County Detention Center	Jail	11,071,800
Falfurrias Village Appartments	Apartments	5,982,700
Brooks County I.S.D. High Sch. Practice Field	Education	4,551,500
Falfurrias Nursing and Rehab	Nursing Home	4,169,300
Sundance Appartments	Apartments	3,461,900
Brooks County I.S.D. Football Stadium	Education	3,221,900
Brooks County I.S.D. Elementary Building	Education	3,085,200
SSP/ Circle K #2180	Conenience Store	2,636,500

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

WATER RATES  
AS OF DECEMBER 31, 2013  
(UNAUDITED)

TABLE C-4

Effective September 15, 2011

	<u>Gallons</u>	<u>Amount</u>
First	2,000	\$14.46(Min)
Next	8,000	2.14/M
Next	15,000	2.35/M
Next	25,000	2.57/M
Over	50,000	2.79/M

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*WATER SUPPLY*  
*AS OF DECEMBER 31, 2013*  
*(UNAUDITED)*

**TABLE C-5**

Water Supply: Eight Wells

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*TOP TEN GAS USERS*  
*AS OF DECEMBER 31, 2013*  
*(UNAUDITED)*

TABLE C-6

Name	Product	MCF
Brooks County Detention Center	Jail	5054.4
Taqueria Jalisco	Restaurant	1380.1
Falfurrias Village Apartments	Apartments	1126.0
Falfurrias Nursing & Rehabilitation	Nursing Home	960.1
Wright III Food Co.	Restaurant	704.3
H.E.B. Grocery	Grocery Chain	567.9
Hearts Delight Laundry	Laundry	555.7
Holiday Inn Express	Hotel/Motel	473.2
Best Western	Hotel	457.5
Muy Pizza - Tejas	Restaurant	444.6

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**

*GAS RATES  
AS OF DECEMBER 31, 2013  
(UNAUDITED)*

**TABLE C-7**

	Residential Rates:		
	<u>Minimum (First 600 CF)</u>	<u>Rates Per CF</u>	<u>Date of Change</u>
Over 600 CF	\$11.67	\$19.45/MCF	September 2008
Over 20,000 CF	\$11.67	\$18.45/MCF	September 2008

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*GAS SUPPLY*  
*AS OF DECEMBER 31, 2013*  
*(UNAUDITED)*

TABLE C-8

Gas Supply:

The Utility Board purchased gas from Center Point Energy at the variable rates noted below:

January, 2013	\$4.34 /MCF
February, 2013	\$4.25 /MCF
March, 2013	\$4.37 /MCF
April, 2013	\$4.96 /MCF
May, 2013	\$5.27 /MCF
June, 2013	\$5.17 /MCF
July, 2013	\$4.66 /MCF
August, 2013	\$4.51 /MCF
September, 2013	\$4.53 /MCF
October, 2013	\$4.49 /MCF
November, 2013	\$4.55 /MCF
December, 2013	\$4.74 /MCF



**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
 SEWER RATES  
 AS OF DECEMBER 31, 2013  
 (UNAUDITED)

TABLE C-9

Rates Effective September 15, 2011

	Gallons	Residential	Commercial
First	2,000	\$17.90(Min)	\$26.85(Min)
Next	8,000	\$1.10/M	\$1.10/M
Maximum		\$31.11	(1)
	Gallons	Hotel/Motel & RV Parks	Apartments
First	2,000	\$34.62(Min)	\$41.27(Min)
Next	8,000	\$2.13/M	\$2.54/M
Maximum		(1)	(1)

(1) No maximum effective February, 2000

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
**STATEMENT OF EARNINGS BY DEPARTMENT**  
**YEAR ENDED DECEMBER 31, 2013**  
**(UNAUDITED)**

TABLE C-10

	Water System	Sewer System	Gas System	Total
<b>Income:</b>				
Revenue from sales	\$ 1,468,509	\$ 687,527	\$ 700,218	\$ 2,856,254
Intergovernmental	--	--	--	--
Other income	51,042	25,836	16,219	93,097
<b>Total income</b>	<b>1,519,551</b>	<b>713,363</b>	<b>716,437</b>	<b>2,949,351</b>
<b>Operating Expenses:</b>				
Production costs	146,251	62,973	204,339	413,563
<b>Transmission and distribution costs:</b>				
Salaries and benefits	263,617	206,278	161,007	630,902
Repairs and maintenance	150,547	173,613	81,253	405,413
Vehicle maintenance	17,733	14,653	13,299	45,685
Depreciation	186,594	141,083	127,430	455,107
Other administrative expenses	204,066	118,625	148,169	470,860
<b>Total operating expenses</b>	<b>968,808</b>	<b>717,225</b>	<b>735,497</b>	<b>2,421,530</b>
<b>Gross Profit (Loss) from Operations</b>	<b>\$ 550,743</b>	<b>\$ (3,862)</b>	<b>\$ (19,060)</b>	<b>\$ 527,821</b>

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
 COMPARISON OF GROSS REVENUES AND OPERATING EXPENSES  
 LAST TEN FISCAL YEARS  
 (UNAUDITED)

TABLE C-11

	<u>Year Ended December 31:</u>	<u>Gross Revenue</u>	<u>Operating Expenses (1)</u>	<u>Gross Profit (Loss)</u>
Water system:	2004	767,564	359,552	408,012
	2005	894,368	452,852	441,516
	2006	962,625	679,485	283,140
	2007	884,444	698,705	185,739
	2008	1,107,271	603,818	503,453
	2009	1,358,369	491,523	866,846
	2010	1,367,981	519,688	848,293
	2011	1,655,903	617,368	1,038,535
	2012	1,554,661	457,375	1,097,286
	2013	1,502,847	782,214	720,633
Sewer System:	2004	399,295	195,229	204,066
	2005	468,526	263,940	204,586
	2006	476,968	407,613	69,355
	2007	465,538	430,382	35,156
	2008	515,475	433,250	82,225
	2009	600,543	304,443	296,100
	2010	638,176	462,352	175,824
	2011	676,100	411,319	264,781
	2012	667,383	409,904	257,479
	2013	704,859	608,066	96,793
Gas System:	2004	746,318	852,072	(105,754)
	2005	969,692	924,682	45,010
	2006	1,039,303	713,169	326,134
	2007	799,667	841,725	(42,058)
	2008	838,556	687,755	150,801
	2009	684,887	560,207	124,680
	2010	720,369	649,991	70,378
	2011	713,598	667,363	46,235
	2012	744,165	507,176	236,989
	2013	711,275	576,142	135,133

(1) Does not include depreciation and other administrative expenses; additionally, from 2013 forward, expenses formerly charged to administrative department are now allocated to the water, sewer, and gas departments, and therefore are included as departmental expenditures.

**THE UTILITY BOARD OF FALFURRIAS, TEXAS**  
*UTILITY SYSTEM STATISTICAL COMPARISON*  
*LAST FIVE FISCAL YEARS*  
*(UNAUDITED)*

TABLE C-12

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Water System - Customers	2,540	2,527	2,514	2,497	2,505
Sewer System - Customers	2,036	2,018	2,008	2,000	1,984
Gas System - Customers	1,141	1,171	1,191	1,226	1,239
Gallons of Water Pumped (000)	450,418	508,070	540,689	435,737	551,081
Gross Revenue per 1,000 gallons of Water Pumped	\$ 3.11	\$ 2.79	\$ 3.06	\$ 3.10	2.41
Average Number of Sewer Customers	2,036	2,015	2,008	2,000	1,984
Gross Revenue per Customer	\$ 371.50	\$ 329.45	\$ 334.71	\$ 317.67	300.87
Water taps made during year	26	33	25	19	36
Sewer taps made during year	18	10	8	7	5
Gas taps made during year	--	1	2	1	--
Average Number of Gas Customers	1,141	1,192	1,209	1,232	1,252
Gross Revenue per Gas Customer	\$ 615.11	\$ 627.68	\$ 586.88	\$ 584.71	570.03
Gas Purchased (Thousand Cu Ft)	44,140	41,930	44,484	49,494	46,193
Gas Sold (Thousand Cu Ft)	32,620	35,636	34,911	35,674	34,077