



Control Number: 42852



Item Number: 17

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83<sup>rd</sup> Legislature, Regular Session, transferred the functions relating to the economic regulation of water and sewer utilities from the TCEQ to the PUC effective September 1, 2014.

# TCEQ Interoffice Memorandum

RECEIVED

47857

**To:** Elizabeth Flores  
Utilities Financial Review

2014 SEP 17 PM 4:44  
PUBLIC UTILITY COMMISSION  
FILING CLERK

**From:** Fred Bednarski, CGAP  
Utilities Financial Review

**Thru:**  Debi Loockerman, CPA  
Utilities Financial Review

**Date:** August 06, 2013

**Subject:** Application from the City of Splendora to Amend Certificate of Convenience and Necessity (CCN) No. 11727 Water in Montgomery and Liberty Counties; Application No. 37569-C

CN 600624712; RN 101384626 (City of Splendora)

In my opinion, the City of Splendora has demonstrated adequate financial and managerial capability to provide service to the area subject to this application. These conclusions are based on information provided by the applicant prior to this date and may not reflect any changes in the applicant's status subsequent to this date.

The City of Splendora filed an application with the TCEQ to add 12,770 acres to its CCN 11727. Currently TCEQ's records indicate this CCN has 2,547 connections and 1,245 acres. Approximately 1,000 of these connections are existing customers that live within the proposed amended area and are currently being served by the city. The city of Splendora's water system currently has excess capacity for growth for new customers. Water users not currently served by the City in the proposed area are served by individual private wells. The City of Splendora does not anticipate any need to serve these individuals in the near future. If the rural areas within the City's ETJ develop, the City has an ordinance in place requiring the developer to construct the necessary distribution system improvements to serve the development.

The City of Splendora's audited financial statements for 2012 were available. The statements include an unqualified auditor's opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City in conformity with accounting principles generally accepted in the United States of America. Total net assets of the City of Splendora are \$3.4 million. The City of Splendora's total debt to net position ratio at 08/31/2012 was \$4.0 million to \$3.4 million, or 1.17 to 1.00. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities. Net operating income was \$277,100 and depreciation was \$322,000 for the City's Water, Sewer and Gas fund. Future cash flows from principle and interest payments on long term debt for FY13 were \$485,600 for the City's Water, Sewer and Gas fund. Therefore the debt service

11

## **TCEQ Interoffice Memorandum**

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coverage ratio calculates to be \$599.5 million to \$485.6 million or \$1.24 to 1.00. A ratio of at least 1.25:1 is preferred when reviewing financial capability to ensure that reserve funds for debt payment and repairs and maintenance are built up and maintained. Restricted cash and cash equivalents for the Water, Sewer, and Gas Fund total \$919.3 million.

The City issues certificates of obligation to provide funds for the construction and improvement of the City's water, sewer, and gas systems. Principal and interest payments on the City's debt are secured by ad valorem property taxes levied on all taxable property within the city limits and further secured by a subordinate lien on a pledge of net revenues from the operation of the City's water and sewer system. In August of 2012, the City issued \$2,450,000 of refunding bonds. Currently these bonds are not rated and the City has the ability to issue more bonds if needed. Over the next 5 years the coupon rate set for these bonds is 2%.

Although the City does not meet normal criteria for financial capability, the debt service coverage ratio is extremely close and the city has sufficient cash reserves to support current debt. Furthermore, no improvements are necessary in the foreseeable future, so no additional funds are needed. Finally, the City's ordinance requiring developer contributions provides for revenues in the case of new development. For these reasons, TCEQ staff believes the City has financial capability to provide service to the area requested.

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*Coverage  
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 + cash reserves*

174,983. → *CO*  
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 83,820. → *Cap.*

003.....  
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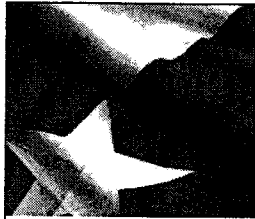
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# MUNICIPAL ADVISORY COUNCIL OF TEXAS

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## 2639 Splendora, City of (General Obligation Debt) GO Ref Bds Ser 2012

Debi Loockerman  
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<b>Underlying Ratings</b>	<b>Fitch:NR</b>	<b>Moodys:NR</b>	<b>S &amp; P:NR</b>
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<b>Issue Size</b>	\$2,450,000	<b>Principal Pays</b>	Annually
<b>Dated Date</b>	8/1/2012	<b>Interest Pays</b>	Semi-Annually
<b>Sale Date</b>	7/17/2012	<b>Interest Calculation</b>	30/360
<b>Sale Type</b>	Negotiated	<b>First Coupon Date</b>	02/01/2013
<b>Delivery Date</b>	08/21/2012	<b>Security</b>	Limited Tax - General Obligation Debt
<b>Tax Treatment</b>	BQ	<b>Record Date</b>	MSRB
<b>Denomination</b>	5,000	<b>Form</b>	BE
<b>TIC</b>	N/A	<b>Official Statement</b>	View FOS
<b>NIC</b>	N/A	<b>Outstanding</b>	\$2,450,000.00

<b>Call Info</b>	
Bonds maturing on 08/01/2021 to 08/01/2024 callable in whole or in part on any date beginning 08/01/2020 @ par.	
<b>Additional Information</b>	
This issue defeased mty(s) 02/01/2016-02/01/2021, 02/01/2024 of C/O Ser 2003 @ par.	

Role	Company
Lead Manager	SAMCO Capital Markets, Inc.
Financial Advisor	Blitch Associates, Inc., Houston, TX
Bond Counsel	Corsbie, Bill
Paying Agent	Bank of Texas, N.A., Austin
Underwriter's Counsel	Fulbright & Jaworski L.L.P.

**This issue refunded the following bonds**

Dated	Title
12/01/2003	C/O Ser 2003

<b>Purpose</b>
Refunding

**Maturities** [Download To Excel](#) [Download Trades to Excel](#)

Matures	Principal	Coupon	Price or Yield	CAB
08/01/2013	\$35,000.00	2.0000	1.50000	
08/01/2014	\$40,000.00	2.0000	1.75000	
08/01/2015	\$40,000.00	2.0000	2.00000	
08/01/2016	\$240,000.00	2.0000	2.10000	
08/01/2017	\$240,000.00	2.2000	2.35000	
08/01/2018	\$250,000.00	2.4000	2.60000	
08/01/2019	\$250,000.00	2.6250	2.80000	
08/01/2020	\$260,000.00	2.9000	3.00000	

*not rated  
but to  
28  
for 5 years*

**MAC**

08/01/2021	\$260,000.00	3.0000	3.15000	
08/01/2022	\$270,000.00	3.2500	3.35000	
08/01/2023	\$280,000.00	3.3750	3.50000	
08/01/2024	\$285,000.00	3.5000	3.60000	

Printable Page

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512-476-6947 - 600 W. 8th St. Austin, TX 78701

## Fred Bednarski

---

**From:** Danna Welter <dannawelter@gmail.com>  
**Sent:** Friday, July 26, 2013 11:11 AM  
**To:** Fred Bednarski  
**Subject:** CCN Application  
**Attachments:** SCAN\_017.pdf

Fred:

Below are the answers to the questions you requested:

1. According to the notes on the financial statements, the City's debt service increases substantially in 2015-2016.

***Please see attachment -- On Page 31, you will see the debt service for the Certificates of Obligation where they increase in year 2016; and on Page 32, you will see debt service for the Revenue Bonds that will end in 2015, thereby keeping the City's debt level.***

- a. Does the City have a 5-10 year capital plan and/or budget?

**No.**

- b. How will the larger payments be managed?

**See answer above.**

2. Is there any expectation of large increases in water revenue or decreases in expenses?

**None planned. Rates are evaluated annually and adjusted as needed.**

3. What is the name and contact number of the City's financial planner who assists with bond issuances?

**Bill Blich - 713/467-7344**

4. Can the City issue more bonds?

**Yes.**

5. What infrastructure is required to serve the new connections obtained by the city in this application?

*At this time, the areas that are not currently served by the City's existing system are rural in nature and the existing water users are all served by individual private wells. Therefore, the City does not anticipate any need to serve them in the near future. If the rural areas within the City's ETJ develop, the City has an ordinance in place requiring the developer to construct the necessary distribution system improvements to serve the development.*

6. What infrastructure is required to serve any potential connections in the area being requested?

*See the response to Question 5 above.*

7. Does the city have a capital improvements plan for 1 and five to 10 years? If so, please provide a copy. If not, please indicate how the city is making decisions?

*The City does not have a formal capital improvements plan. The City's growth has been very slow and has been evaluating its needs on an annual basis during budget workshops for the coming year.*

8. How does the city plan on paying for improvements required to serve new connections?

*The only growth in connections has been occurring as infill development along the City's existing water lines, which have some excess capacity. Of course, this is dependent on the exact location of the infill development. The City has been paying for system upgrades on an as needed basis for many years and plans to continue to do so.*

9. Does the current water system have excess capacity to serve new connections?

*The City's supply, storage, and pumping facilities have excess capacity for growth in the number of customers. Portions of the existing distribution system have excess capacity, depending on the location and the distance from the pressure maintenance facilities.*

10. What is the cost of any required new infrastructure to serve new connections requesting service in the area to be added?

*Other than individual potential customers located adjacent to the City's existing lines, there are no potential new customers requesting service in the area to be added.*

Fred: Please let me know if you need additional information or need to set up a meeting!

Thanks -

Danna Welter  
City Secretary  
City of Splendor  
281-689-3197  
281-689-3249 (fax)



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$\star$  4,317,210. ÷  
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1.47511643695 \*

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# CITY OF SPLENDORA, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

- new system  
we
- no capital needed
- Cash reserves
- very close to our benchmark 5

**CITY OF SPLENDORA, TEXAS**  
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INTRODUCTORY SECTION

CITY OF SPLENDORA, TEXAS  
PRINCIPAL CITY OFFICIALS  
SEPTEMBER 30, 2012

Dorothy Welch ..... Mayor  
M. Leon Ward ..... Councilmember, Position 1  
Lisa Carr ..... Councilmember, Position 2  
Fred Atkins, Jr. .... Councilmember, Position 3  
Dottie Bruner ..... Councilmember, Position 4  
Buck Clendennen ..... Councilmember, Position 5  
Danna Welter ..... City Secretary

FINANCIAL SECTION

# HLSK

*Hereford, Lynch, Sellars & Kirkham*  
Certified Public Accountants • A Professional Corporation

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Texas Society of Certified Public Accountants  
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of the AICPA Division for Firms

Cleveland  
111 East Boothe  
Cleveland, Texas 77327  
Tel 281-592-6443  
Fax 281-592-7706

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council  
City of Splendora, Texas  
P.O. Box 1087  
Splendora, Texas 77372

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Splendora (City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed 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 consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

*Hereford, Lynch, Sellars & Kirkham, P.C.*

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.  
Certified Public Accountants

Conroe, Texas  
March 18, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Splendora's annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$3,418,040 (net assets). Net assets reflect \$1,739,055 that is invested in capital assets, net of related debt.
- During the year, the City's net assets decreased by \$31,175 which consisted of revenues of \$2,373,689 and expenditures of \$2,404,864.
- The General Fund reported a fund balance this year of \$113,074, which approximated 16% of General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highway and streets, culture and recreation, and interest and fees on long-term debt. The business-type activities of the City include water, sewer, and gas operations.

The government-wide financial statements include only the City itself (known as the *primary government*). The government-wide financial statements can be found as noted in the table of contents of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is required to be a major fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

**Proprietary funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Gas Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Gas Fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found as noted in the table of contents of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents *other supplementary information*, which includes a schedule of taxes receivable and insurance coverage. Other supplementary information can be found as noted in the table of contents of this report.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,418,040 at the close of the most recent fiscal year.

Table A-1  
CITY OF SPLENDORA, TEXAS NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 161,139	\$ 167,281	\$ 1,864,208	\$ 2,006,385	\$ 2,025,347	\$ 2,173,666
Capital Assets	408,386	396,798	5,579,923	5,693,778	5,988,309	6,090,576
<b>Total Assets</b>	<b>569,525</b>	<b>564,079</b>	<b>7,444,131</b>	<b>7,700,163</b>	<b>8,013,656</b>	<b>8,264,242</b>
Long-term Liabilities Outstanding	46,929	-	4,317,210	4,457,050	4,364,139	4,457,050
Other Liabilities	31,247	24,353	200,230	333,624	231,477	357,977
<b>Total Liabilities</b>	<b>78,176</b>	<b>24,353</b>	<b>4,517,440</b>	<b>4,790,674</b>	<b>4,595,616</b>	<b>4,815,027</b>
<b>Net Assets:</b>						
Invested in Capital Assets, net of Related Debt	361,457	396,798	1,377,598	1,461,085	1,739,055	1,857,883
Restricted	31,209	-	779,649	857,306	810,858	857,306
Unrestricted	98,683	142,928	769,444	591,098	868,127	734,026
<b>Total Net Assets</b>	<b>\$ 491,349</b>	<b>\$ 539,726</b>	<b>\$ 2,926,691</b>	<b>\$ 2,909,489</b>	<b>\$ 3,418,040</b>	<b>\$ 3,449,215</b>

The City's total assets of \$8,013,656 are largely comprised of capital assets, net of accumulated depreciation of \$5,988,309, or 75%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements.

Long-term liabilities of \$4,364,139 comprise the largest portion of the City's total liabilities of \$4,595,616 at 95%. Of total long-term liabilities, \$360,280 is due within one year, with the remainder \$4,003,859 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to the financial statements.

By far the largest portion of the City's net assets \$1,739,055 (51 percent) reflects its investment in capital assets (e.g., land, water system, sewer system, gas system, buildings and improvements, machinery, equipment, and vehicles, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its 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, since the capital assets themselves cannot be used to liquidate these liabilities. The \$868,127 of unrestricted net assets represent resources available to fund the programs of the City net year.

Changes in net assets. The City's combined increase (decrease) in net assets was (\$31,175) at September 30, 2012.

Table A-2  
CITY OF SPLENDORA, TEXAS CHANGE IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 165,094	\$ 151,221	\$ 1,764,941	\$ 1,806,096	\$ 1,930,035	\$ 1,957,317
Operating Grants and Contributions	10,165	10,095	-	7,730	10,165	17,825
Capital Grants and Contributions	-	-	-	240,713	-	240,713
General Revenues:						
Property Taxes	135,693	129,245	-	-	135,693	129,245
Sales Taxes	229,658	212,579	-	-	229,658	212,579
Franchise Taxes	60,312	62,689	-	-	60,312	62,689
Earnings on Investments	57	62	5,266	2,915	5,323	2,977
Miscellaneous	2,503	19,614	-	-	2,503	19,614
<b>Total Revenues</b>	<b>603,482</b>	<b>585,505</b>	<b>1,770,207</b>	<b>2,057,454</b>	<b>2,373,689</b>	<b>2,642,959</b>
Expenses:						
General Government	94,050	107,377	-	-	94,050	107,377
Public Safety	574,161	542,481	-	-	574,161	542,481
Highways and Streets	6,874	7,792	-	-	6,874	7,792
Culture and Recreation	15,027	13,876	-	-	15,027	13,876
Interest and Fees on Long-term Debt	1,747	716	-	-	1,747	716
Water, Sewer and Gas	-	-	1,713,005	1,636,170	1,713,005	1,636,170
<b>Total Expenses</b>	<b>691,859</b>	<b>672,242</b>	<b>1,713,005</b>	<b>1,636,170</b>	<b>2,404,864</b>	<b>2,308,412</b>
Excess (Deficiency) Before Transfers	(88,377)	(86,737)	57,202	421,284	(31,175)	334,547
Transfers In (Out)	40,000	30,000	(40,000)	(30,000)	-	-
Increase (Decrease) in Net Assets	(48,377)	(56,737)	17,202	391,284	(31,175)	334,547
Net Assets - Beginning	539,726	596,463	2,909,489	2,518,205	3,449,215	3,114,668
Net Assets - Ending	\$ 491,349	\$ 539,726	\$ 2,926,691	\$ 2,909,489	\$ 3,418,040	\$ 3,449,215

#### Governmental Activities

The City's total revenues were \$603,482 from all governmental activities. A significant portion, \$165,094 or 27%, of the City's revenue comes from charges for services (primarily fines). Sales tax revenue accounts for \$229,658, or 38%, property tax revenue accounts for \$135,693, or 22%. The remaining 13 percent is generated from operating grants and contributions, franchise taxes, earnings on investments, and miscellaneous revenues.

The total cost of all governmental programs and services was \$691,859. The public safety function accounted for \$574,161, or 83% of this total. The general government function accounted for \$94,050, or 14% of this total. The remaining functional categories of expenses are individually 10 percent or less of total expenditures. Expenses increased \$19,617 in total, which consists primarily of an increase in public safety of \$31,680 while general government decreased \$13,327.

The decrease in net assets for governmental activities is primarily due to an increase in expenditures on public safety.

#### **Business-type Activities**

Business-type activities are financed in whole or part by fees charged to external users for goods or services (water, sewer, and gas). They are reported in the enterprise fund. Business-type activities increased the City's net assets by \$17,202. Revenue can be reported as program revenue or general revenue—all revenues are general unless they are required to be reported as program revenues. Program revenue, charges for services, which includes revenues attributable to a specific program because they are a result of exchange-like transactions or other events, such as charges to customers. Charges for service of \$1,764,941 are utilized to provide funds for program expenses of \$1,713,005.

The increase in net assets for business-type activities is primarily due to revenues from user fees were sufficient to cover the increase in expenses to provide water and sewer.

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$81,865. The total fund balance of the general fund was \$113,074. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represents 11% and 16%, respectively, of the City's total general fund expenditures.

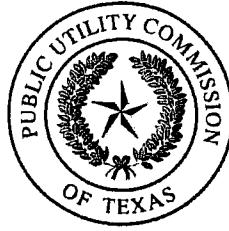
The fund balance of the City's general fund decreased by \$11,221 primarily due to the increase in fine revenue did not exceed the increase cost relative to public safety expenditures.

*Proprietary fund.* The City's proprietary fund financial statements reflect the City's water, sewer, and gas activities in a Water, Sewer, and Gas fund. The net increase in net assets during the current year in the Water, Sewer, and Gas fund was \$17,202. The factors for the increase have been addressed in the discussion of the City's business-type activities.

#### **General Fund Budgetary Highlights**

The City amends the budget as needed throughout the year. The significant differences between the original budget and the final amended budget of the general fund were relative to the purchase of two police cars.

There were no significant differences between the final budget and the actual amounts expended.



*House Bill (HB) 1600 and Senate Bill (SB) 567 83<sup>rd</sup> Legislature, Regular Session, transferred the functions and records relating to the economic regulation of water and sewer utilities from the TCEQ to the PUC effective September 1, 2014.*

## **Central Records Personally Identifiable Information Audit**

### **NOTICE OF REDACTION**

**Documents containing Personally Identifiable Information\* have been redacted from electronic posting, in accordance with Texas privacy statutes.**

\*"Personally Identifiable Information" (PII) is defined to include information that alone or in conjunction with other information identifies an individual, including an individual's: Social security or employer taxpayer identification number, driver's license number, government-issued identification card number, or passport numbers, checking and savings account numbers, credit card numbers, debit card numbers, unique electronic identification number, address, or routing code, electronic mail names or addresses, internet account numbers, or internet identification names, digital signatures, unique biometric data, and mother's maiden name, marriage and any other numbers or information used to access an individual's financial account.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPLENDORA, TEXAS  
 SUMMARY OF TAXES RECEIVABLE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE B-1

Tax Year	Balance 9/30/2011	Tax Levy	Collections	Adjustments	Balance 9/30/2012
2011	\$ -	\$ 135,036	\$ 129,180	\$ 13	\$ 5,869
2010	6,000	-	3,453	351	2,898
2009	2,757	-	894	(34)	1,829
2008	2,524	-	719	72	1,877
2007	1,350	-	28	74	1,396
2006	680	-	32	-	648
2005	720	-	32	-	689
2004	680	-	-	1	679
2003	667	-	-	(1)	667
2002 & Prior	4,031	-	-	-	2,787
Total	\$ 19,409	\$ 135,036	\$ 134,338	\$ (1,244)	\$ 19,339
Less Allowance for Uncollectible Accounts					(774)
					\$ 18,565

ASSESSED VALUATION SUMMARY

Tax Year	Property Valuations	Tax Rate Per \$100 Valuation
2011	\$ 48,278,870	\$ .2797
2010	42,366,240	.2968
2009	41,421,760	.2978
2008	36,628,351	.2984
2007	32,344,162	.2955
2006	28,801,793	.3000
2005	28,326,740	.3000
2004	21,894,273	.3000
2003	21,559,208	.3000
2002	19,445,288	.3000



**CITY OF SPLENDORA, TEXAS**  
**INSURANCE COVERAGE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**SCHEDULE B-2**

<u>Type of Coverage</u>	<u>From</u>	<u>To</u>	<u>Coverage</u>	<u>Insurer</u>
General Liability	10/01/11	10/01/12	\$1,000,000	Texas Municipal League
Automobile Liability	10/01/11	10/01/12	1,000,000	Texas Municipal League
Law Enforcement Liability	10/01/11	10/01/12	1,000,000	Texas Municipal League
Errors and Omissions Liability	10/01/11	10/01/12	1,000,000	Texas Municipal League
Workers' Compensation	10/01/11	10/01/12	Statutory	Texas Municipal League
Real and Personal Property	10/01/11	10/01/12	4,303,051	Texas Municipal League
Mobile Equipment	10/01/11	10/01/12	137,690	Texas Municipal League
Boiler and Machinery	10/01/11	10/01/12	450,000	Texas Municipal League

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OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

# HLSK

*Hereford, Lynch, Sellars & Kirkham*  
Certified Public Accountants • A Professional Corporation

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Cleveland, Texas 77327  
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## 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*

The Honorable Mayor and Members of City Council  
City of Splendora, Texas  
P.O. Box 1087  
Splendora, Texas 77372

The Honorable Mayor and Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of City of Splendora, Texas (City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 18, 2013. 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.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

### Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Hereford, Lynch, Sellars & Kirkham, P.C.*

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.  
Certified Public Accountants

Conroe, Texas  
March 18, 2013

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**CITY OF SPLENDORA, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

1. Type of auditors' report issued	Unqualified
2. Internal Control over Financial Reporting:	
a. Significant Deficiencies identified that are <u>not considered</u> to be material weaknesses?	None
b. Material Weaknesses identified?	None
3. Noncompliance material to the Financial Statements?	None

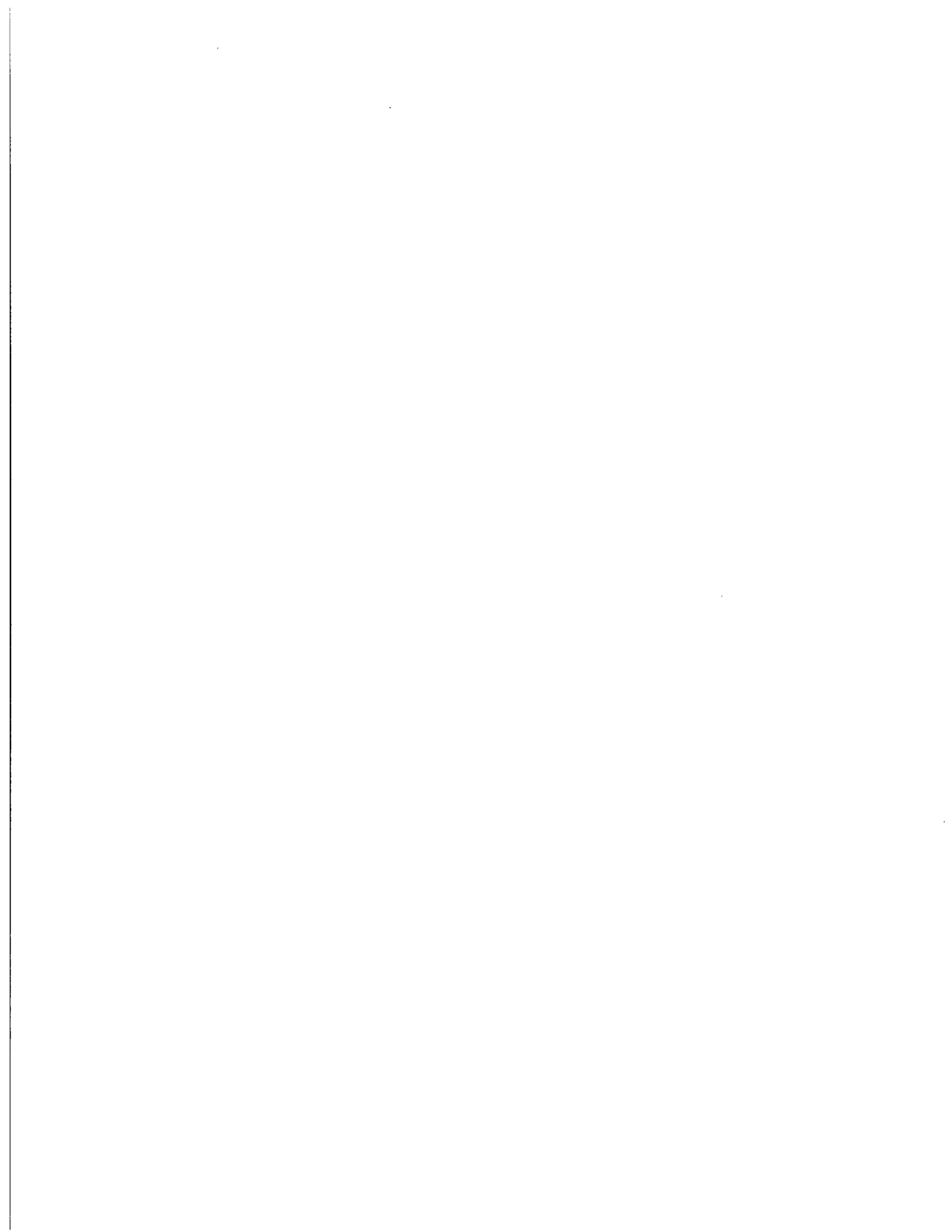
**SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS**

**1. FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING**

None

**2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS**

None





To: Administrative Reviewer

Date Complete: July 16, 2013

From: Cartographer-Utilities & Districts Section

Subject: Overlap & Notice Check for Administrative Review No. **A-039-13/37569-C** City of Splendora (11727) to amend water CCN in Montgomery and Liberty counties.


- X 1. No new overlap of service areas exists.
- 2. An overlap:
- 3. Dual certification:
- 4. An overlap exists with the city limits of:
- 5. If this is a Sale, Transfer, or Merger, is additional area being requested?
  
- 7. Map submitted is digital request digital data.
  
- 9. Utility notice was sufficient.
- X 10. Utility notice was insufficient. In addition to those systems listed in the application, they will also need to notify:

TWO MILES:

- Consumers Water (10347)
- Crystal Springs Water (11373)
- Southern Horizons (12863)
- Texas American Water (13114)
- AquaTexas (13203)
- City of Cleveland (13217)
- East River Estates Water Supply (12572)
- Five Land Water System (12502)
- Northwoods WSC (12879)
- Orchard Crossing (12671)
- Patton Village Water Company (11193)
- Peach Creek Dam & Lake Club (12574)
- Quadvest (11612)
- Roman Forest Consolidated MUD (11327)
- South Cleveland WSC (12566)
- T & W Water Service (12892)
- East Montgomery County Improvement District

East Montgomery County MUD 10  
East Montgomery County MUD 11  
East Montgomery County MUD 12  
East Montgomery County MUD 13  
East Montgomery County MUD 14  
East Montgomery County MUD 4  
East Montgomery County MUD 5  
East Montgomery County MUD 8  
East Montgomery County MUD 9  
Montgomery County MUD 16  
Liberty Lakes FWSD 1  
Roman Forest PUD 3  
Roman Forest PUD 4  
Lonestar GCD  
Montgomery County  
Liberty County  
All cities and etj's within 2 miles of proposed area  
Any other Utility, District or entity that would be required to receive notice

- X 11. Notice: **new acreage is 12770**  
On the east by Plum Grove Rd.
- X 12. Other comments: **new maps and data removed overlaps**

  
\_\_\_\_\_  
Kent Steelman

To: Administrative Reviewer Date Complete: July 10, 2013

From: Cartographer-Utilities & Districts Section

Subject: Overlap & Notice Check for Administrative Review No. A-039-13/37569-C  
City of Splendora (11727) to amend water CCN in Montgomery and Liberty counties.

1. No new overlap of service areas exists.
2. An overlap:
3. Dual certification:
4. An overlap exists with the city limits of:
5. If this is a Sale, Transfer, or Merger, is additional area being requested?
  
7. Map submitted is digital request digital data.
  
9. Utility notice was sufficient.
10. Utility notice was insufficient. In addition to those systems listed in the application, they will also need to notify:


TWO MILES:

All cities and etj's within 2 miles of proposed area

Any other Utility, District or entity that would be required to receive notice

11. Notice:

X 12. Other comments: **New data does not match maps submitted with the application.**

  
\_\_\_\_\_  
Kent Steelman

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF SPLENDORA, TEXAS**  
**INSURANCE COVERAGE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**SCHEDULE B-2**

<u>Type of Coverage</u>	<u>From</u>	<u>To</u>	<u>Coverage</u>	<u>Insurer</u>
General Liability	10/01/10	10/01/11	\$1,000,000	Texas Municipal League
Automobile Liability	10/01/10	10/01/11	1,000,000	Texas Municipal League
Law Enforcement Liability	10/01/10	10/01/11	1,000,000	Texas Municipal League
Errors and Omissions Liability	10/01/10	10/01/11	1,000,000	Texas Municipal League
Workers' Compensation	10/01/10	10/01/11	Statutory	Texas Municipal League
Real and Personal Property	10/01/10	10/01/11	3,662,551	Texas Municipal League
Mobile Equipment	10/01/10	10/01/11	137,690	Texas Municipal League
Boiler and Machinery	10/01/10	10/01/11	450,000	Texas Municipal League
Surety Bond - Employee Dishonesty	09/01/05	Until Cancelled	10,000	Western Surety

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Hereford, Lynch, Sellars & Kirkham, P.C.*

**HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.**  
Certified Public Accountants

**Conroe, Texas**  
**February 20, 2012**

**CITY OF SPLENDORA, TEXAS**  
*SCHEDULE OF FINDINGS AND RESPONSES*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2011*

<b>SECTION I – SUMMARY OF AUDITORS' RESULTS</b>	
<b>FINANCIAL STATEMENTS</b>	
1. Type of auditors' report issued	Unqualified
2. Internal Control over Financial Reporting:	
a. Significant Deficiencies identified that are <u>not considered</u> to be material weaknesses?	None
b. Material Weaknesses identified?	None
3. Noncompliance material to the Financial Statements?	None
<b>SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS</b>	
<b>1. FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING</b>	
None	
<b>2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS</b>	
None	



**Attachment H**

Proposed Rate Schedule

**SECTION 1. AMENDMENT to Residential Water Rates**

The City further amends Section   I   of Ordinance No. 2007-09-17, dated September 9<sup>th</sup> 2007 to read as follows:

(1.) **Monthly Rates for Water Service Inside the City**

(a) **Residential Rate:** The following rates per month shall be charged for water service to each single-family residence, mobile home, manufactured home, duplex or apartment by the City through meters to each separate connection in the City limits:

For the first 3000 gallons of water used.....	<u>\$ 22.00</u>
For each 1,000 gallons of water used over 3,000 gallons up to 15,000 gallons .....	<u>\$ 3.00</u>
For each 1,000 gallons of water used over 15,000 gallons..	<u>\$ 3.50</u>

(b) **Commercial Rate:** The following rates per month shall be charged for water service to Commercial Consumers by the City through meters to each separate connection in the City limits:

**5/8" meter:**

For the first 2,000 gallons of water used.....	<u>\$ 27.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	<u>\$ 3.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	<u>\$ 3.50</u>

**1 1/2" meter:**

For the first 2,000 gallons of water used.....	<u>\$ 52.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	<u>\$ 3.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	<u>\$ 3.50</u>

**2" meter:**

For the first 2,000 gallons of water used.....	<u>\$ 77.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	<u>\$ 3.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	<u>\$ 3.50</u>

**3" meter:**

For the first 2,000 gallons of water used.....	<u>\$ 102.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	<u>\$ 3.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	<u>\$ 3.50</u>

**SECTION 2. AMENDING WATER SERVICE RATES**

The City further amends Section   II   of Ordinance No. 2007-09-17, dated September 9<sup>th</sup> 2007 to read as follows:

To: Administrative Reviewer

Date Complete: April 4, 2013

From: Cartographer-Utilities & Districts Section

Subject: Overlap & Notice Check for Administrative Review No. A-039-13/37569-C  
City of Splendora (11727) to amend water CCN in Montgomery county.

1. No new overlap of service areas exists.
2. An overlap:
3. Dual certification:
4. An overlap exists with the city limits of:
5. If this is a Sale, Transfer, or Merger, is additional area being requested?
  
7. Map submitted is digital request digital data.
  
9. Utility notice was sufficient.
10. Utility notice was insufficient. In addition to those systems listed in the application, they will also need to notify:

TWO MILES:

All cities and etj's within 2 miles of proposed area

- X 11. Notice: **DO NOT NOTICE**
- X 12. Other comments: **Maps do not meet requirements. Please submit the following. (Data does not appear to be projected and if it is what projection, no actual location map only a large map, no facilities map, applicant needs to get existing CCN data as requested may not give desired results.)**
- A. A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
  - B. A map showing only the proposed area by:
    - i. metes and bounds survey certified by a licensed state or register professional land surveyor; or
    - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled). Also, a data disk labeled with the applicant's name must be provided; or

**(2.) Monthly Rates for Water Service Outside the City.**

**(a) Residential Rate:** The following rates per month shall be charged for water service to each single residence, mobile home, manufactured housing, duplex, or apartment by the City through meters to each separate connection outside the City limits:

For the first 3,000 gallons of water used.....	\$ <u>25.00</u>
For each 1,000 gallons of water used over 3,000 gallons.....	\$ <u>4.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	\$ <u>4.50</u>

**(b) Commercial Rate:** The following rate per month shall be charged for water service to Commercial Consumers by the City through meters to each separate connection outside the City limits:

**5/8" meter:**

For the first 2,000 gallons of water used.....	\$ <u>29.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	\$ <u>4.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	\$ <u>4.50</u>

**1 1/2" meter:**

For the first 2,000 gallons of water used.....	\$ <u>52.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	\$ <u>4.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	\$ <u>4.50</u>

**2" meter:**

For the first 2,000 gallons of water used.....	\$ <u>79.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	\$ <u>4.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	\$ <u>4.50</u>

**3"/Larger meter:**

For the first 2,000 gallons of water used.....	\$ <u>104.00</u>
For each 1,000 gallons of water used over 2,000 gallons.....	\$ <u>4.00</u>
For each 1,000 gallons of water used over 15,000 gallons....	\$ <u>4.50</u>

**SECTION 3. AMENDING SEWER RATES**

The City further amends Section III of Ordinance No. 2007-09-17, dated September 9<sup>th</sup> 2007 to read as follows:

(a) The following monthly rates shall be charged by the City of Splendor for its sanitary sewer system:

**(1) In City Residential**

\$ 5.00 minimum up to 1,000 gallons (based on water usage)