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NUECES WATER SUPPLY CORPORATION

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Nueces Water Supply Corporation  
P.O. Box 415  
Kingsville, Texas 78364

**Report on the Financial Statements**

We have audited the accompanying financial statements of Nueces Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 an 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 opinion.



PRIVATE COMPANIES PRACTICE SECTION, AICPA, DIVISION FOR CPA FIRMS

### ***Opinion***

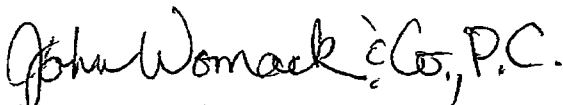
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nueces Water Supply Corporation as of December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial statements and supporting schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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.

Respectfully submitted,



John Womack and Company, P.C.  
Kingsville, Texas  
March 23, 2018

*Basic Financial Statements*



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NUECES WATER SUPPLY CORPORATION

**NUECES WATER SUPPLY CORPORATION****STATEMENT OF NET POSITION****DECEMBER 31, 2017 AND 2016****EXHIBIT A-1**

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash Equivalents	\$ 1,358,842	\$ 1,226,890
Accounts receivable - customers	80,261	79,861
Accounts receivable - other	732	526
Accrued interest receivable	--	158
Prepaid expenses	3,728	6,928
Inventory	41,971	25,212
Total Current Assets	<u>1,485,534</u>	<u>1,339,417</u>
Restricted Assets:		
Cash and cash equivalents:		
Membership deposits	<u>90,431</u>	<u>89,655</u>
Total Restricted Assets	<u>90,431</u>	<u>89,655</u>
Property and Equipment		
Utility plant (net)(Note D)	<u>2,193,719</u>	<u>1,595,884</u>
TOTAL ASSETS	<u>3,769,684</u>	<u>3,025,114</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	73,984	71,957
Texas Commission on Environmental Quality fees payable	3,598	3,724
Deposits payable - renters	<u>750</u>	<u>750</u>
Total Current Liabilities	<u>78,332</u>	<u>76,431</u>
Restricted Liabilities:		
Membership deposits	<u>94,800</u>	<u>90,400</u>
Total Restricted Liabilities	<u>94,800</u>	<u>90,400</u>
TOTAL LIABILITIES	<u>173,132</u>	<u>166,831</u>
<b>NET POSITION</b>		
Contributed capital (Note A)	1,599,660	1,555,201
Unrestricted net position	<u>1,996,892</u>	<u>1,303,082</u>
TOTAL NET POSITION	<u>\$ 3,596,552</u>	<u>\$ 2,858,283</u>

The accompanying notes are an integral part of this statement.

# NUECES WATER SUPPLY CORPORATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
YEARS ENDED DECEMBER 31, 2017 AND 2016

EXHIBIT A-2

	December 31, 2017	December 31, 2016
OPERATING REVENUES:		
Water sales	\$ 813,110	\$ 834,074
Other operating income	110,790	44,468
Total Operating Revenues	923,900	878,542
OPERATING EXPENSES:		
Water service	427,594	450,333
Water samples	5,076	3,537
Meter reading	45,722	44,384
Depreciation	168,180	124,492
Dues	2,773	3,633
Insurance	7,185	7,369
Legal and accounting	14,933	7,105
Other professional services	1,114	12,391
Miscellaneous	--	293
Postage	4,244	5,162
Administration	65,860	58,881
Repairs and maintenance	172,931	164,158
Supplies	2,609	4,210
Telephone	928	216
Bad debt expense	494	956
Total Operating Expenses	919,643	887,120
Net Operating Income	4,257	(8,578)
OTHER INCOME (EXPENSES)		
Interest income	10,101	5,024
Governmental Asset Conveyance	679,452	--
Total Other Income (Expenses)	689,553	5,024
NET INCOME	\$ 693,810	\$ (3,554)
	Unrestricted Net Position	Contributed Capital
Balance, December 31, 2015	\$ 1,306,636	\$ 1,527,668
Contributed Capital additions, 2016	--	27,533
Net Income, 2016	(3,554)	--
Balance, December 31, 2016	1,303,082	1,555,201
Contributed Capital additions, 2017	--	44,459
Net Income, 2017	693,810	--
Balance, December 31, 2017	\$ 1,996,892	\$ 1,599,660

The accompanying notes are an integral part of this statement.

**NUECES WATER SUPPLY CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**DECEMBER 31, 2017 AND 2016**

**EXHIBIT A-3**

	December 31 2017	December 31 2016
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 923,452	\$ 880,458
Cash Received from Other Governments	--	--
Cash Payments to Other Suppliers for Goods and Services	(758,721)	(760,005)
Net Cash Provided (Used) by Operating Activities	<u>164,731</u>	<u>120,453</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition or Construction of Capital Assets	(86,563)	(183,660)
Contributed Capital	44,459	27,533
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(42,104)</u>	<u>(156,127)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and Dividends on Investments	10,101	5,013
Net Cash Provided (Used) for Investing Activities	<u>10,101</u>	<u>5,013</u>
Net Increase (Decrease) in Cash and Cash Equivalents	132,728	(30,661)
Cash and Cash Equivalents at Beginning of Year	1,316,545	1,347,206
Cash and Cash Equivalents at End of Year	<u>\$ 1,449,273</u>	<u>\$ 1,316,545</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 4,257	\$ (8,578)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	168,180	124,492
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	(448)	916
Decrease (Increase) in Prepaid Expenses	3,200	(1,500)
Decrease (Increase) in Inventories	(16,759)	(5,382)
Increase (Decrease) in Accounts Payable	1,901	9,505
Increase (Decrease) in Member Deposits	4,400	1,000
Total Adjustments	<u>160,474</u>	<u>129,031</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 164,731</u>	<u>\$ 120,453</u>
 Cash and Cash Equivalents	 \$ 1,358,842	 \$ 1,226,890
Restricted Cash	90,431	89,655
	<u>\$ 1,449,273</u>	<u>\$ 1,316,545</u>

**Non-Cash Transactions:**

The Corporation received capital assets conveyed from the South Texas Water Authority in the amount of \$679,452.

The accompanying notes are an integral part of this statement.

## NUECES WATER SUPPLY CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017 AND 2016

#### A. Nature of Operations and Summary of Significant Accounting Policies

The Nueces Water Supply Corporation is a member-owned non-profit corporation incorporated pursuant to the provisions of the Texas Revised Annotated, Article 1434A as supplemented by the Texas Non-Profit Corporation Act, Texas Revised Civil Stat. Annotated, Article 1396, for the purpose of furnishing a potable water utility service. Corporation operating policies, rates, tariffs, and regulations are formulated and effected by a Board of Directors elected by members of the Corporation. All profits arising from the operation of such business shall be paid out annually to persons who have, during the past year, transacted business with the Corporation, in direct proportion to the amount of business transacted. No such dividends shall be paid while any indebtedness of the Corporation remains unpaid, and provided also that the Directors of the Corporation may allocate to a reserve fund such amounts of the annual income as they deem necessary for maintenance, upkeep, operation and replacements, emergency repairs, and for deficiencies in income necessary to meet debt service costs. For financial statement purposes, the accounting records are maintained on the accrual basis of accounting.

#### Corporation's By-Laws

The Corporation has adopted by-laws which establishes the make-up of the Board of Directors, establishes the membership voting rights, provides for annual and regular meetings, provides for reserve accounts and establishes the rights of the members and other important regulations of the water system. These by-laws are included by reference herein, as amended from time to time, and are on file for inspection in the Corporation's office.

#### Authorization of the Corporation

The authorization granted under Chapter 13 of the Texas Water Code grants Nueces Water Supply Corporation the right to provide water utility service within a defined territory. Nueces Water Supply Corporation has Certificate Number 11948. The Territory defined in the Certificate of Convenience and Necessity (CCN) shall be the certificated service area.

#### Accounting Policies

##### *(1) Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

##### *(2) Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Corporation considers all highly liquid debt securities with a maturity date within ninety days of the date acquired to be cash equivalents. Management considers investments in public funds investment pools to be cash equivalents due to their high liquidity.

##### *(3) Accounts Receivable*

Accounts receivables are stated at the amount management expects to collect from outside balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt and a credit to the applicable accounts receivable.

##### *(4) Inventory*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are used.

**NUECES WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017 AND 2016**

*(5) Utility Plant*

The cost of additions to utility plant and their renewals and betterments are capitalized. The Corporation will capitalize costs greater than or equal to \$1,000. For financial statement purposes, the Corporation provides for depreciation by use of the straight-line method. The rates are intended to distribute the cost of depreciable properties over their estimated useful lives. Maintenance repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expenses as incurred. Gains and losses on disposition of property and equipment are included in the Statement of Activities. The cost of capitalized assets are stated at cost or fair market value if contributed. Estimated useful lives are as follows:

Distribution Lines	40 years
Meters and Other	3 years
Engineering	40 years
Furniture and Office Equipment	5 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 2017 nor during fiscal year 2016.

*(6) Memberships/Contributed Capital*

Monies paid in as memberships are reflected as membership deposits, since they are refundable when service is terminated. Tap and contributed capital fees, which are collected when each member joins, are recorded at the same time as contributed capital, since they are not refundable once service is established.

*(7) Estimates*

Preparation of the financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

**B. Cash and Cash Equivalents**

Cash accounts included in the financial statements are maintained at institutions which are covered by the Federal Deposit Insurance Corporation. The depository bank deposits for safekeeping and trust with the Nueces Water Supply Corporation's agent bank pledged securities in an amount sufficient to protect its funds on a day-to-day basis. The pledge of securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. Nueces Water Supply Corporation's cash deposits at December 31, 2017 and 2016, were entirely covered by FDIC insurance or by collateral held by their agent bank. Included in these deposits is a \$502,480 Certificate of Deposit maturing September, 2018. Investments not included in the above depository contract include \$781,648 in TexPool, which is made up of highly liquid pooled investments whose market value closely approximates cost.

## NUECES WATER SUPPLY CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017 AND 2016

#### Public Funds Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act") Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to : 1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Corporation's investments in Pools are reported at an amount determined by the fair market value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like Pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

#### TexPool

The Corporation has invested approximately 60% of its cash with TexPool. Pursuant to subchapter G of chapter 404 of the Interlocal Cooperation Act (the "Act"), the Comptroller of Public Accounts (the "Comptroller") administers the Texas Local Government Investment Pools (the "TexPool Portfolios") as public funds investment pools through the Texas Safekeeping Trust Company (the "Trust Company"). The Comptroller and the Trust Company have contracted with Federated Investors, Inc. ("Federated"), as administrator and investment manager for the TexPool Portfolios.

The purpose of TexPool is to offer a safe, efficient, and liquid investment alternative to local governments in the State of Texas. As required by the Act, the investment objectives of TexPool in order of priority are 1) preservation and safety of principal, 2) liquidity, and 3) yield. Principal is protected and market and credit risks minimized by investing in a diversified pool of assets of high credit quality. Actual risks are minimized by adequate collateralization and use of delivery versus payment procedures.

Texpool has the following authorized investments -

1. Obligations of the United States, its agencies, or instrumentalities with a maximum final stated maturity limited to 297 days for fixed rate securities and 24 months for variable rate notes.
2. Fully collateralized repurchase agreements or reverse repurchase agreements (i) with defined termination dates, (ii) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage backed securities, (iii) that require purchased securities to be pledged to the investing entity, in the entity's name, and deposited at the time of investment with the investing entity or a third party, and (iv) that are placed through primary government securities dealers, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.
3. No-load money market mutual fund that (i) is registered with and regulated by the Securities and Exchange Commission, (ii) provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, (iii) maintains a dollar-weighted average stated maturity of 90 days or fewer, and (v) includes in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share.
4. TexPool may engage in a securities lending program that complies with the following:
  - a. the value of the securities loaned, including accrued interest, must be fully collateralized by (i) government securities, (ii) irrevocable letters of credit issued by a bank organized under U.S. or state law and continuously rated at least A or its equivalent by at least one NRSRO, or (iii) cash invested in government securities, commercial paper, mutual funds, or investment pools authorized by the Act;

**NUECES WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017 AND 2016**

- b. the loan must be terminable at any time;
- c. the loan terms must require that the collateral be pledged to the investing entity, held in its name, and deposited with the investing entity or a third party selected and approved by the investing entity;
- d. the loan must be placed through primary dealers or financial institutions doing business in the state; and
- e. the loan agreement must have a term of one year or less.

As required by section 2256.009 of the Act, TexPool cannot invest in the following:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
4. Collateralized mortgage obligations that the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

In addition, TexPool will not invest in derivatives, commercial paper, or certificates of deposit. Diversification limitations govern investments and are applied at the date of purchase.

- \* Up to 100% of TexPool assets may be invested in government obligations of the United States, its agencies, or instrumentalities. However, no more than 60% of the portfolio may be invested in variable rate notes.
- \* Up to 100% of TexPool assets may be invested in repurchase agreements. No more than 25% of TexPool assets may be invested in term repurchase agreements and no more than 5% of TexPool assets may be invested in term repurchase agreements with maturities exceeding 90 days.
- \* Up to 15% of the TexPool assets may be invested in approved money market funds. No more than 10% of TexPool assets may be invested in a single mutual fund.

**Credit Risk:** Credit risk is the possibility that the issuer of a security will fail to make timely payments of interest or principal. In general, the lower the credit quality of a security, the higher the yield, all other factors being equal. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager, Federated, to only invest in obligations of the U.S. Government, its agencies, and instrumentalities; repurchase agreements; no-load AAAm money market mutual funds registered with the Securities and Exchange Commission; and securities lending programs.

The credit risk associated with investments in direct obligations of the United States is low. Obligations issued or guaranteed by Federal agencies of government-sponsored enterprises are not direct obligations of the United States and offer more varied credit risk. Because the United States Government is not obligated to provide support to its instrumentalities, TexPool's investment manager will invest in obligations issued by an agency or instrumentality only after analysis that credit risk with respect to the issuer is minimal.



## NUECES WATER SUPPLY CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017 AND 2016

TexPool's investment manager will also invest in repurchase agreements and reverse repurchase agreements which are documented through the use of a Bond Market Association, formerly the Public Securities Association, approved Master Repurchase Agreement and collateralized by obligations of the United States, its agencies, instrumentalities or other obligations on which the principal and interest are unconditionally guaranteed or insured by the United States. Repurchase agreements and reverse repurchase agreement transactions will only be placed with primary government securities dealers or financial institutions doing business in the State of Texas, and proceeds received under reverse repurchase agreements will be reinvested in securities with the same maturity as the term of the reverse agreement.

**Market Risk:** Market risk is the potential for a decline in market value due to rising interest rates. For example, a bond or other security issued or backed by the United States Government is guaranteed only as to the timely payment of interest and principal; its market price is not guaranteed and will fluctuate in value as interest rates change. In general, the market value of a bond varies inversely with interest rates. If interest rates rise, then market values fall. If interest rates fall, then market values rise. Also, values typically fluctuate more for longer-term securities than for shorter-term securities.

TexPool's portfolio has low market risk due to restrictions on weighted average maturity and maximum maturity of any one investment. TexPool's investment manager will maintain the weighted average maturity of the portfolio at 60 days or less, no fixed rate security will exceed 297 days in maturity, and no variable rate note will exceed 24 months in maturity. Federated is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$0.995 or rises above \$1.005. These limitations are designed to minimize market risk.

#### C. Utility Plant in Service

At December 31, 2017 and 2016, Utility Plant in Service is as follows:

	2017	2016
Distribution lines and equipment	\$ 2,958,983	\$ 2,915,352
Pump stations	679,452	--
Meters and other chattels	553,721	523,563
Engineering costs	341,795	291,295
Office furniture & equipment	55,404	55,404
Easements	25,688	25,688
Construction in Progress	22,974	60,500
Total Utility Plant in Service	4,638,017	3,871,802
Less: Accumulated Depreciation	(2,444,098)	(2,275,918)
Net Utility Plant in Service	\$ 2,193,919	\$ 1,595,884

The Corporation acquires title to water lines in return for agreeing to their maintenance whenever a subdivision enters the Corporation. The cost of these lines are paid by the subdivision to the Corporation as a reimbursement of cost paid by the Corporation. The Corporation then records it as an addition to fixed assets and an increase in contributed capital.

#### D. Management

##### (1) Certificate of Convenience and Necessity

Certificate of Convenience and Necessity (No. 11948) was awarded to the Nueces Water Supply Corporation by the Texas Utility Commission of Texas as requested in Docket No. 6025 in 1987.

**NUECES WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017 AND 2016**

**(2) Management Contract**

On January 7, 1985, the Corporation entered into a management contract with the South Texas Water Authority for management and operations of its system. The contract provides for insurance and bonding; reporting, and management's procedures and responsibilities.

**(3) Accounting and Billing**

During the normal course of operations, the Nueces Water Supply Corporation remits funds to the South Texas Water Authority for the performance of various services including water purchases, inspections, administration, and repairs and maintenance costs.

For the twelve month periods ended December 31, 2017 and 2016, amounts paid to the South Texas Water Authority for these services totaled \$692,224 and \$708,331, respectively, in the following categories:

	2017	2016
Administration	\$ 94,385	\$ 88,384
Operations	79,837	74,136
Water purchases	427,596	450,334
Repair and maintenance	90,406	95,477
	<u>\$ 692,224</u>	<u>\$ 708,331</u>

**E. Income Taxes**

The Corporation is exempt from federal income taxes under Section 501(c)(12). Therefore, no provision has been made for income tax.

The Corporation adopted the provisions of FASB ASC 740-10-25, "Income Taxes - Overall - Recognition", which requires recognition and disclosure of uncertain tax positions in the financial statements and footnotes. Management has analyzed the Corporation's tax positions taken with respect to all applicable income tax issues for open tax years (2014 through 2017), and has concluded that it has appropriate support for any tax positions taken or expected to be taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

**F. Concentration of Risk**

All customers of Nueces Water Supply Corporation are located in Nueces County, Texas. At December 31, 2017 and 2016, there were 926 and 902 customers on line, respectively. One customer, GEO Services, accounted for 26% of gallons sold in 2017.

The South Texas Water Authority is the sole source of water obtained by the Corporation for sale to its customers. The Corporation's water purchase contract with South Texas Water Authority was approved in June, 2015, effective on that date for twenty years.

**G. Subsequent Events**

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through March 23, 2018, which is the date of the audit report. The financial statements include all Type I events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management and those charged with governance have determined that there are no non-recognized Type II subsequent events that require additional disclosure.

**H. Budgets**

A budget is prepared using the accrual basis of accounting. The budget is approved by the Board of Directors, and used as a management tool and as a basis in determining the price of water charged to member users of the Corporation.

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NUECES WATER SUPPLY CORPORATION

*Supplementary Information*

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NUECES WATER SUPPLY CORPORATION

# **NUECES WATER SUPPLY CORPORATION**

**EXHIBIT B-1**

STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN UNRESTRICTED NET POSITION - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE  
ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017			2016
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>OPERATING REVENUES:</b>				
Water sales	\$ 805,000	\$ 813,110	\$ 8,110	\$ 834,074
Other operating income	98,498	110,790	12,292	44,468
Total Operating Revenues	903,498	923,900	20,402	878,542
<b>OPERATING EXPENSES:</b>				
Water service	434,700	427,594	7,106	450,333
Water samples	5,700	5,076	624	3,537
Meter reading	46,500	45,722	778	44,384
Depreciation	135,000	168,180	(33,180)	124,492
Dues	4,900	2,773	2,127	3,633
Insurance	11,088	7,185	3,903	7,369
Legal and accounting	13,665	14,933	(1,268)	7,105
Other professional services	6,000	1,114	4,886	12,391
Miscellaneous	150	--	150	293
Postage	5,000	4,244	756	5,162
Administration	66,625	65,860	765	58,881
Repairs and maintenance	155,200	172,931	(17,731)	164,158
Supplies	4,250	2,609	1,641	4,210
Telephone	950	928	22	216
Bad debt expense	600	494	106	956
Total Operating Expenses	890,328	919,643	(29,315)	887,120
Net Operating Income	13,170	4,257	(8,913)	(8,578)
<b>OTHER INCOME (EXPENSES)</b>				
Interest income	11,625	10,101	(1,524)	5,024
Governmental Asset Conveyance	--	679,452	679,452	--
Loss on disposal of assets	(14,800)	--	14,800	--
Total Other Income (Expenses)	(3,175)	689,553	692,728	5,024
<b>NET INCOME</b>	9,995	693,810	683,815	(3,554)
Unrestricted Net Position, January 1	1,303,082	1,303,082	--	1,306,636
Unrestricted Net Position, December 31	\$ 1,313,077	\$ 1,996,892	\$ 683,815	\$ 1,303,082

**NUECES WATER SUPPLY CORPORATION****EXHIBIT B-2****SCHEDULE OF INSURANCE COVERAGE****FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Carrier</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Period</u>
AIA Insurance	General Liability	\$1,000,000/3,000,000	12/31/2016
AAIC	Property	\$807,992	through 12/31/2017
AIA Insurance	Director's & Officer's	\$1,000,000/3,000,000	12/31/2016
AAIC			through 12/31/2017
AIA Insurance	Flood	\$742,197	12/31/2016
AAIC	(at locations other than Agua Dulce)		through 12/31/2017
Carlisle Ins.	Surety Bond	\$25,000	5/10/2017
Western Surety	Secretary/Treasurer Position		through 5/10/2018

**NUECES WATER SUPPLY CORPORATION****EXHIBIT B-3****SCHEDULE OF WATER PURCHASES AND SALES****LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended</u>	<u>Gallons Purchased</u>	<u>Gallons Sold</u>	<u>Gallons Corporation Usage, Losses, Etc.</u>	<u>Purchased Not Sold</u>
12/31/2008	105,318,930	85,282,980	20,035,950	19.02%
12/31/2009	114,765,760	100,239,800	14,525,960	12.66%
12/31/2010	101,368,516	79,161,130	22,207,386	21.91%
12/31/2011	121,161,490	110,538,280	10,623,210	8.77%
12/31/2012	117,617,670	108,741,240	8,876,430	7.55%
12/31/2013	149,668,470	135,062,750	14,605,720	9.76%
12/31/2014	136,606,240	126,052,230	10,554,010	7.73%
12/31/2015	142,701,783	141,615,010	1,086,773	0.76%
12/31/2016	164,675,847	145,943,030	18,732,817	11.38%
12/31/2017	155,773,250	134,396,620	21,376,630	13.72%

**Standard and Non-Standard Service Availability Charges**

The minimum monthly charge for meter water service is as follows:

5/8" meter - \$29.65 with no water

3/4" meter - \$34.43 with no water

1" meter - \$68.35 with no water

1 1/2" meter - \$109.00 with no water

2" meter - \$151.00 with no water

Customers on line: 926



**NUECES WATER SUPPLY CORPORATION****EXHIBIT B-4****SCHEDULE OF FDIC INSURANCE AND PLEDGED SECURITIES****FOR THE YEAR ENDED DECEMBER 31, 2017**

FDIC Insurance		\$	250,000	Demand Accounts	
<u>Description</u>	<u>Security ID</u>	<u>Pledged %</u>	<u>Whole \$ Market</u>	<u>Whole \$ Pledged</u>	
GNR 2016-98 AD	38379UXC5	100%	\$ 1,787,009.00	\$ 1,787,009.00	

# NUECES WATER SUPPLY CORPORATION

EXHIBIT B-5

## SCHEDULE OF FIXED ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
153	Dist. Lines	40	\$ 1,434	\$ 0	S-L	\$ 20	\$ 171
153	Dist. Lines	40	2,340	0	S-L	36	334
153	Dist. Lines	40	21,324	0	S-L	348	3,485
153	Dist. Lines	40	1,388,325	0	S-L	23,302	233,026
153	Dist. Lines	40	67,313	0	S-L	1,683	25,242
153	Dist. Lines	40	5,442	0	S-L	136	2,131
153	Dist. Lines	40	402	0	S-L	10	160
153	Dist. Lines	40	10,498	0	S-L	262	4,366
153	Dist. Lines	40	3,959	0	S-L	99	1,832
153	Dist. Lines	40	2,305	0	S-L	58	978
153	Dist. Lines	40	12,682	0	S-L	317	5,771
153	Dist. Lines	40	5,419	0	S-L	135	2,470
153	Dist. Lines	40	1,976	0	S-L	40	669
153	Dist. Lines	40	507	0	S-L	13	241
153	Dist. Lines	40	280,248	0	S-L	7,104	141,928
153	Dist. Lines	40	2,817	0	S-L	70	1,508
153	Dist. Lines	40	1,478	0	S-L	37	825
153	Dist. Lines	40	942	0	S-L	24	527

# NUECES WATER SUPPLY CORPORATION

## SCHEDULE OF FIXED ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT B-5  
(continued)

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
153	Dist. Lines	40	1,821	0	S-L	46	1,035
153	Dist. Lines	40	62,006	0	S-L	1,550	35,196
153	Dist. Lines	40	113,006	0	S-L	2,825	63,330
153	Dist. Lines	40	165,100	0	S-L	4,128	94,588
153	Dist. Lines	40	26,746	0	S-L	669	15,718
153	Dist. Lines	40	36,080	0	S-L	902	21,175
153	Dist. Lines	40	1,580	0	S-L	39	938
153	Dist. Lines	40	11,764	0	S-L	294	7,223
153	Dist. Lines	40	4,603	0	S-L	115	2,804
153	Dist. Lines	40	2,034	0	S-L	51	1,335
153	Dist. Lines	40	2,151	0	S-L	54	1,425
153	Dist. Lines	40	38,530	0	S-L	963	26,088
153	Dist. Lines	40	1,967	0	S-L	49	1,352
153	Dist. Lines	40	3,628	0	S-L	91	2,508
153	Dist. Lines	40	28,740	0	S-L	719	19,998
153	Dist. Lines	40	2,292	0	S-L	57	1,609
153	Dist. Lines	40	17,311	0	S-L	433	12,453
153	Dist. Lines	40	6,032	0	S-L	151	4,496

# **NUECES WATER SUPPLY CORPORATION**

## **SCHEDULE OF FIXED ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT B-5

(continued)

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
153	Dist. Lines	40	3,182	0	S-L	80	2,486
153	Dist. Lines	40	313,716	0	S-L	7,843	249,666
153	Dist. Lines	40	1,618	0	S-L	40	1,272
153	Dist. Lines	40	6,203	0	S-L	155	5,182
153	Dist. Lines	40	4,779	0	S-L	119	4,146
153	Dist. Lines	40	6,433	0	S-L	322	5,361
153	Dist. Lines	40	30,673	0	S-L	1,534	26,710
153	Dist. Lines	40	52,560	0	S-L	2,628	45,552
153	Dist. Lines	40	12,755	0	S-L	638	11,745
153	Dist. Lines	40	146,977	0	S-L	7,230	138,600
153	Dist. Lines	40	7,352	0	S-L	735	6,372
153	Dist. Lines	40	4,869	0	S-L	367	4,502
153	Dist. Lines	40	33,062	0	S-L	2,480	30,582
160	Meters/Other	3	1,716	0	S-L	-	-
160	Meters/Other	3	9,386	0	S-L	-	-
160	Meters/Other	3	51	0	S-L	-	-
160	Meters/Other	3	14,659	0	S-L	-	-
160	Meters/Other	3	9,810	0	S-L	-	-

# NUECES WATER SUPPLY CORPORATION

## SCHEDULE OF FIXED ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT B-5  
(continued)

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
160	Meters/Other	3	1,338	0	S-L	-	-
160	Meters/Other	3	40,036	0	S-L	-	-
160	Meters/Other	3	8,199	0	S-L	-	-
160	Meters/Other	3	1,951	0	S-L	-	-
160	Meters/Other	3	11,290	0	S-L	-	-
160	Meters/Other	3	10,103	0	S-L	-	-
160	Meters/Other	3	8,688	0	S-L	-	-
160	Meters/Other	3	11,354	0	S-L	-	-
160	Meters/Other	3	11,748	0	S-L	-	-
160	Meters/Other	3	8,492	0	S-L	-	-
160	Meters/Other	3	10,025	0	S-L	-	-
160	Meters/Other	3	11,388	0	S-L	-	-
160	Meters/Other	3	20,219	0	S-L	-	-
160	Meters/Other	3	5,359	0	S-L	-	-
160	Meters/Other	10	151,511	0	S-L	11,363	-
160	Meters/Other	10	27,500	0	S-L	2,063	-
160	Meters/Other	10	13,777	0	S-L	-	-
160	Meters/Other	10	10,660	0	S-L	-	-

# NUECES WATER SUPPLY CORPORATION

## SCHEDULE OF FIXED ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT B-5

(continued)

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
160	Meters/Other	10	8,644	0	S-L	-	-
160	Meters/Other	10	13,742	0	S-L	-	-
160	Meters/Other	10	943	0	S-L	-	-
160	Meters/Other	10	16,894	0	S-L	-	-
160	Meters/Other	10	25,552	0	S-L	-	-
160	Meters/Other	10	24,025	0	S-L	4,130	-
160	Meters/Other	10	14,563	0	S-L	4,854	2,120
160	Meters/Other	10	19,940	0	S-L	6,647	9,158
160	Meters/Other	10	30,158	0	S-L	6,960	23,198
163	Pump Stations	10	679,452	0	S-L	33,973	645,479
167	Engineering	40	46,589	0	S-L	778	7,779
167	Engineering	40	1,702	0	S-L	50	866
167	Engineering	40	14,327	0	S-L	358	5,394
167	Engineering	40	4,489	0	S-L	112	2,171
167	Engineering	10	29,000	0	S-L	-	-
167	Engineering	10	55,000	0	S-L	5,500	10,083
167	Engineering	10	140,188	0	S-L	14,018	103,973
167	Engineering	10	50,500	0	S-L	2,946	47,554

# **NUECES WATER SUPPLY CORPORATION**

## **SCHEDULE OF FIXED ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2017

**EXHIBIT B-5**  
(continued)

Acct. No.	Class	Life Years	Cost	Sal.	Mtd.	Current Year Dep.	Net Book Val.
180	Easements	0	25,688	0	S-L	-	25,688
172	Office Furniture	5	2,814	0	S-L	-	-
172	Office Furniture	5	5,116	0	S-L	-	-
172	Office Furniture	5	107	0	S-L	-	-
172	Office Furniture	5	370	0	S-L	-	-
172	Office Furniture	5	19,994	0	S-L	-	-
172	Office Furniture	5	377	0	S-L	-	-
172	Office Furniture	5	396	0	S-L	-	-
172	Office Furniture	5	1,250	0	S-L	-	-
172	Office Furniture	5	15,696	0	S-L	1,569	11,273
172	Office Furniture	5	1,820	0	S-L	364	728
172	Office Furniture	5	678	0	S-L	136	373
172	Office Furniture	5	4,690	0	S-L	938	2,423
172	Office Furniture	5	523	0	S-L	105	366
172	Office Furniture	5	1,575	0	S-L	315	1,208
185	Construction in Prog.	0	22,974	0	S-L	-	22,974
			<u>\$ 4,638,017</u>			<u>\$ 168,180</u>	<u>\$ 2,193,919</u>

**NUECES WATER SUPPLY CORPORATION**  
P.O. BOX 415  
KINGSVILLE, TEXAS 78364

**ATTACHMENT 11**

**QUESTION 18(A)**

*“Are any improvements required to meet TCEQ or PUC standards? If yes, please explain:”*

Cyndie Park 2 WSC has experienced problems with the groundwater from their community well exceeding the MCL for arsenic. Several years ago, a filtration system was installed as a possible temporary measure while funding was sought to provide a surface water supply. Attached are the arsenic test results for CP 2 WSC dating back to 2005. This information was obtained from the TCEQ's Drinking Water Watch website.

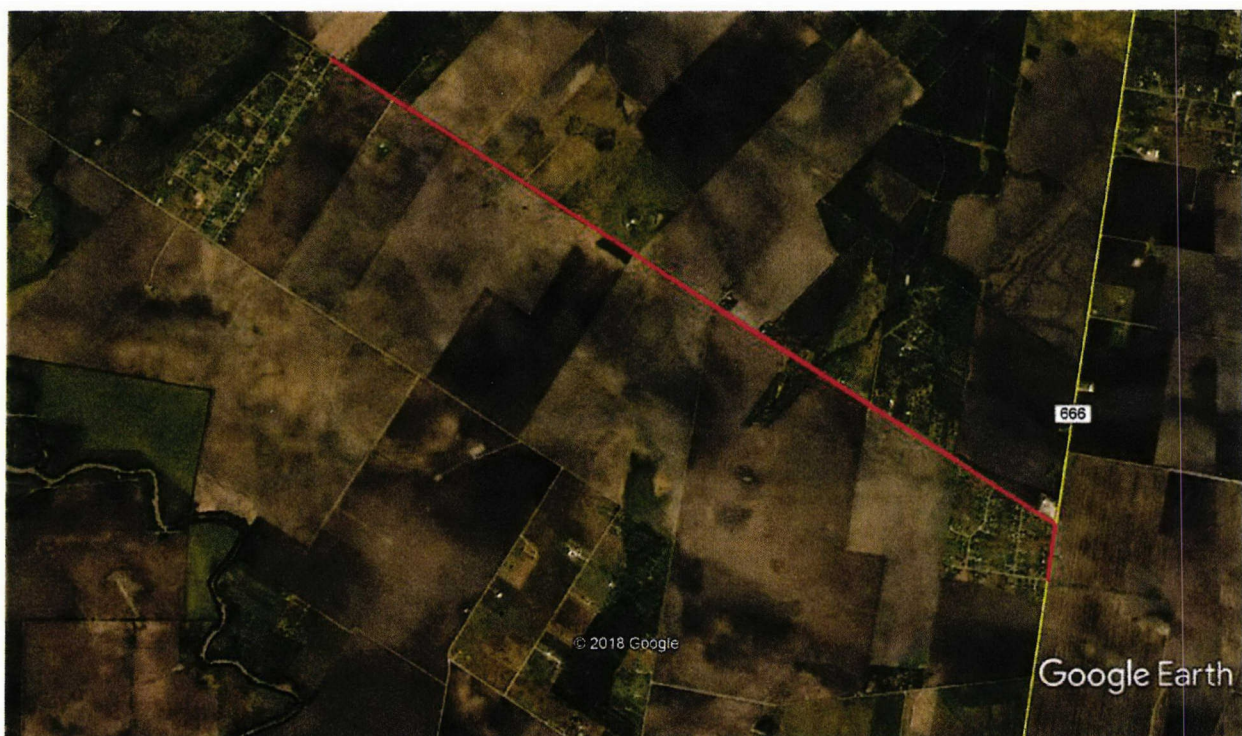
Funding has been secured from the Texas Department of Agriculture and Texas Water Development Board for the installation of a 4" transmission line to be tied into a 6" waterline owned and operated by the Nueces Water Supply Corporation as a means of providing a surface water supply. The 6" line is located at the intersection of FM 666 and Warbonnet. The photo below shows the beginning of that route.







The new waterline will extend North from the intersection of FM 666/War Bonnet Drive to FM 1833 and then travel west to the intersection with Cindy Lane as shown in the photo above. The photo below shows the route of the entire line.





The plans and specifications for the new line are complete. The project is a Nueces County project administered by the Nueces County Grant Administration Office. Roxanna Sandoval is the Nueces County Grant Administrator and her contact information is provided in response to Question 3. The Nueces County Commissioners Court has awarded the bid to Mercer Construction, Edna, Texas. Construction should be underway by early April 2018.

In addition, pump station improvements will be installed in Banquete, Texas, the site from which the 6" NWSC waterline receives its service. These funds have also been secured. The NWSC Board has approved \$50,000 in matching funds for the project. The South Texas Water Authority, the entity that wholesales water to NWSC, will be providing funds for the construction of the new pump station facilities, immediately north of the existing pump station. The existing pump station provides service to the community of Banquete (Nueces County Water Control and Improvement District #5 – NCWCID #5) and the NWSC customers located in the surrounding Banquete area. The new pump station will separate service resulting in the original pump station providing service to the Banquete Water District (NCWCID #5) and the new pump station to the NWSC rural customers including the residents of Cyndie Park 2 WSC. The final plans and specifications for these improvements are nearly complete and advertisement for bid is anticipated to occur by the end of April 2018.



**Texas Commission on Environmental  
Quality  
County Map of TX**

**Office of Water**  
**Water System Search**

**Public Drinking Water Section**  
**Office of Compliance and Enforcement**

## Water System Detail

<a href="#">Water System Facilities</a>	<a href="#">Announcements</a>	<a href="#">Updates/Alerts</a>	<a href="#">DUE Sample Results</a>	<a href="#">EPA/MD/MS/SD Summaries</a>
<a href="#">Source Water Assessment/Resili.</a>	<a href="#">Activities</a>			
<a href="#">Sample Points</a>	<a href="#">Assistance/Advisors</a>		<a href="#">Recent Potable DUE Results</a>	<a href="#">PDCU Summaries</a>
<a href="#">Sample Schedules /IANUs</a>				
<a href="#">Plans</a>	<a href="#">Compliance Schedule</a>		<a href="#">Other Chemical Results</a>	<a href="#">Chemical Summaries</a>
<a href="#">Site Visits</a>	<a href="#">Milestones</a>	<a href="#">FOU Advisory Results</a>	<a href="#">Chemical Results Sort by Name</a>	<a href="#">Industrial Summaries</a>
<a href="#">Operators</a>	<a href="#">All PDC</a>	<a href="#">EPA/MD/MS/SD</a>	<a href="#">Recent Non-DUE Sample Results</a>	<a href="#">DUE Sample Summaries</a>
<b><a href="#">Glossary</a></b>				

### Water System Detail Information

Water System No.:	TX1780050	Federal Type:	C
Water System Name:	CYNDIE PARK 2 WSC	Federal Source:	GW
Principal County Served:	NUECES	System Status:	A
Principal City Served:		Activity Date:	01-01-1913

### Result List by Analyte

[illegible]

1005	ARSENIC	EP001	TRT-TAP	04/24/2013	1327154	AC17627	200.8				0.0188 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	01/22/2012	1229120	1201498002	200.8				0.0127 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	10/25/2011	1167470	1110886001	200.8				0.0309 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	09/25/2011	1167284	1109A94001	200.8				0.0188 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	05/18/2011	1167100	1105544002	200.8				0.0122 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	03/02/2011	1127625	1103173002	200.8				0.01 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	11/30/2010	1030700	1012081001	200.8				0.01 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	09/29/2010	1030701	1010026002	200.8				0.00983 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	10/27/2009	0931291	AB13858	200.8				0.0144 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	07/09/2009	0931290	AB06518	200.8				0.0132 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	04/08/2009	0931289	AA96519	200.8				0.0169 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	01/28/2009	0931288	AA88701	200.8				0.0146 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	11/21/2008	0834799	0811810001	200.8				0.0103 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	08/26/2008	0834798	0808774001	200.8				0.013 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	06/24/2008	0834797	0806793001	200.8				0.0112 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	02/13/2008	0834796	0802342003	200.8				0.0102 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	08/30/2007	0732709	0708B74001	200.8				0.0106 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	04/09/2007	0732708	0704338002	200.8				0.00954 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	03/05/2007	0732707	0703137001	200.8				0.00982 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	01/24/2006	0601076	0601487003	200.8				0.0102 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	07/25/2005	0531137	0507579001	200.8				0.0125 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	04/28/2005	0531136	0505017001	200.8				0.0107 MG/L	0.01 MG/L
1005	ARSENIC	EP001	TRT-TAP	02/02/2005	0531139	0502096002	200.8				0.0125 MG/L	0.01 MG/L

Total Number of Records Fetched = 38

**Notes:**

Analyte results are presented sorted by date then TCEQ Sample ID Number.

Single Sample MCL Violations are noted in **Bold Red** in the Concentration column.

**NUECES WATER SUPPLY CORPORATION**  
P.O. BOX 415  
KINGSVILLE, TEXAS 78364

**ATTACHMENT 12**

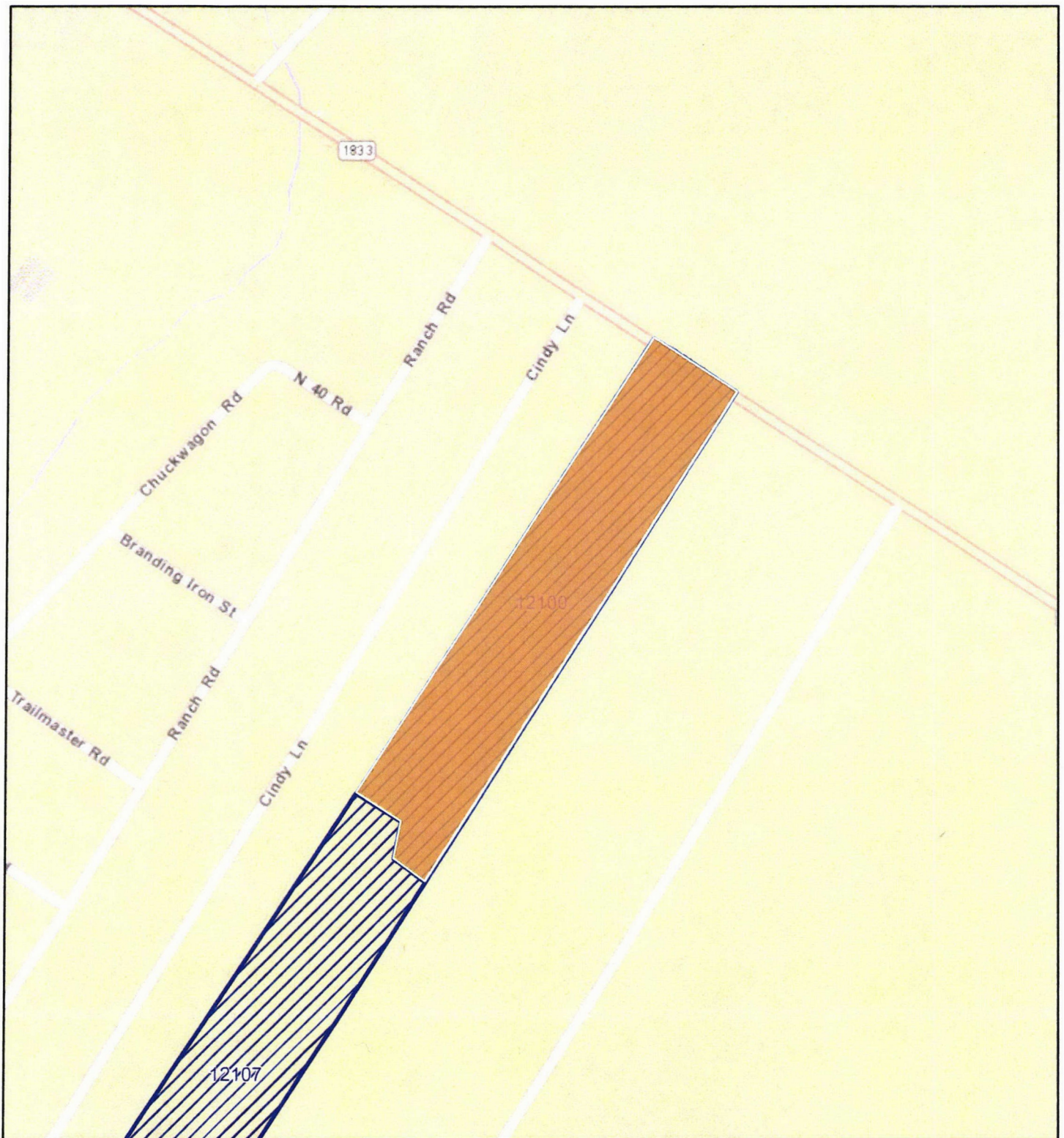
**QUESTION 24**

Maps of the affected service area showing the existing area and the area requested by Nueces WSC are attached hereto. One CD containing the shapefiles and maps will also be submitted with this application.

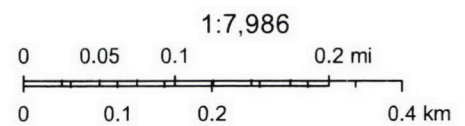
Please note that the area to be transferred seems to be inaccurately located in the PUC's database, and Nueces WSC is therefore offering the corrected location as part of the application.



# Nueces WSC Requested area (CCN No. 12100)



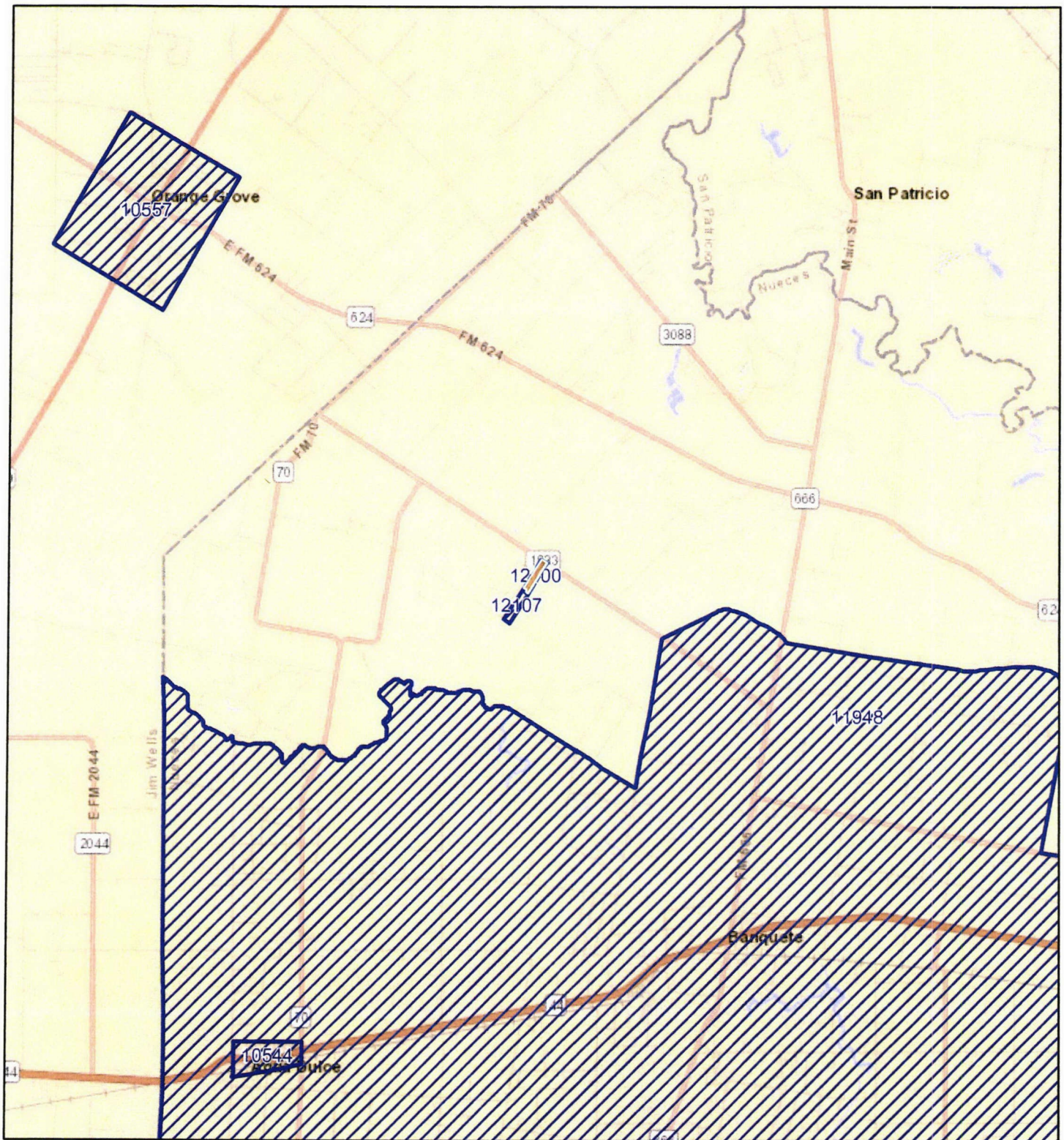
April 13, 2018



Esri, HERE, Garmin, INCREMENT P, NGA, USGS

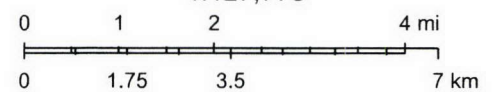


## Nueces WSC Requested area (CCN No. 12100)



April 13, 2018

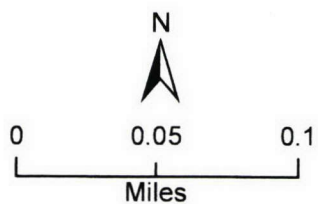
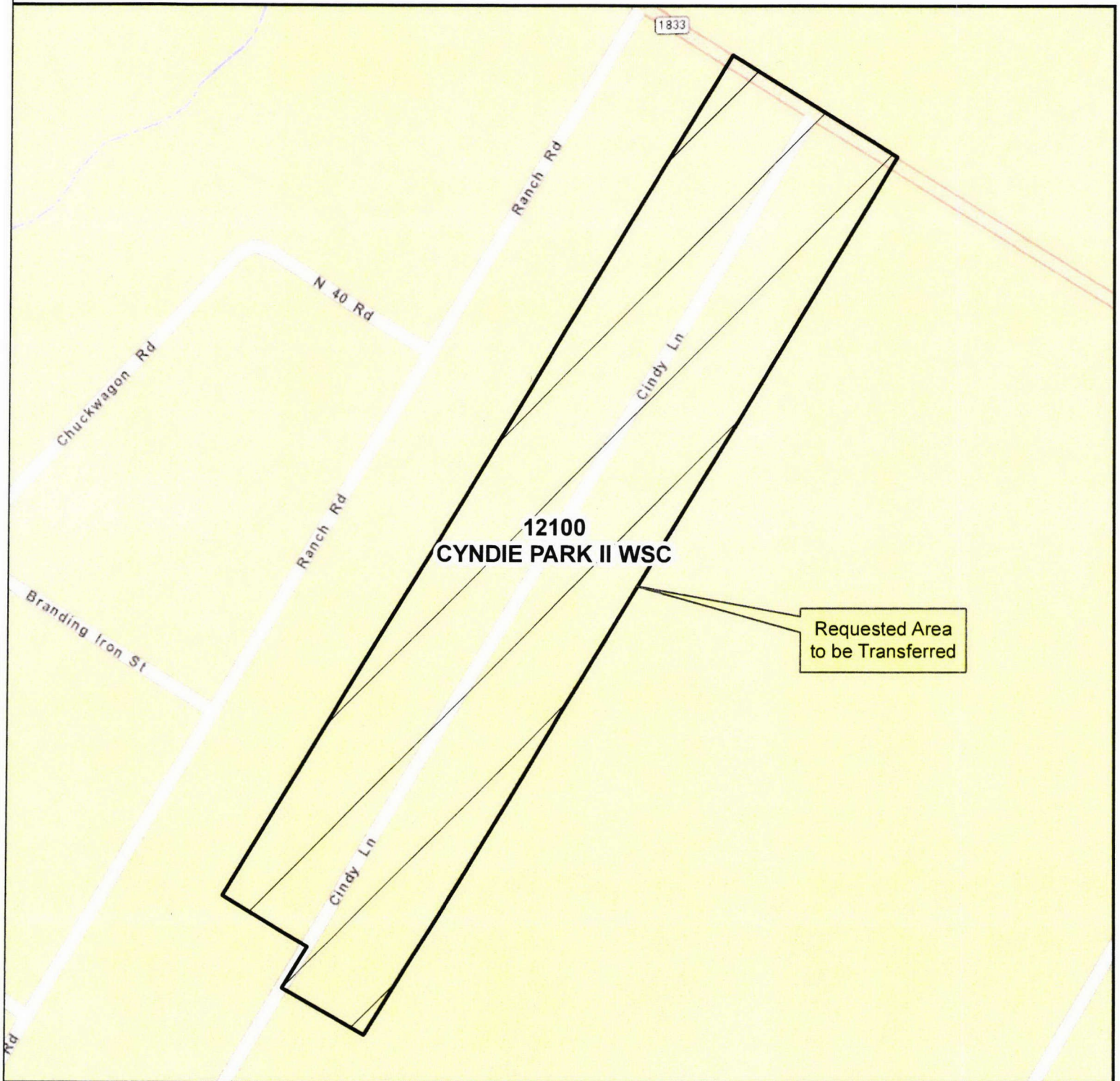
1:127,773



Esri, HERE, Garmin, NGA, USGS, NPS



**Nueces WSC to Amend CCN No. 11948  
and Cancel All of Cyndie Park II WSC CCN No. 12100  
via STM in Nueces County**

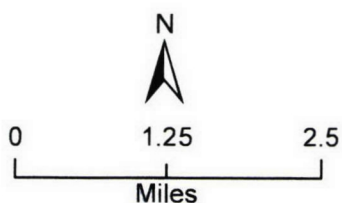


**Requested Area to be Transferred**


 CCN No. 12100 - Cyndie Park II WSC



**Nueces WSC to Amend CCN No. 11948  
and Cancel All of Cyndie Park II WSC CCN No. 12100  
via STM in Nueces County**



**Requested Area to be Transferred**

 CCN No. 12100 - Cyndie Park II WSC