



Comprehensive Annual Financial Report
Public Utilities Board of the City of Brownsville, Texas
(A Component Unit of the City of Brownsville, Texas)
For the Fiscal Years Ended September 30, 2013 and 2012



Prepared by:
Finance Division

Leandro G. García, CPA
Chief Financial Officer
lgarcia@brownsville-pub.com

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

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(A Component Unit of the City of Brownsville, Texas)

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Introductory Section

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March 6, 2014

Members of the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board) for the fiscal year ended September 30, 2013. As required by state law, the CAFR includes financial statements which have been audited by a firm of licensed certified public accountants. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by the licensed certified public accounting firm of Long Chilton, L.L.P.

The report consists of management's representation concerning the finances of the Public Utilities Board. As a result, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Public Utilities Board has established a comprehensive internal control framework that is designed both to protect the Public Utilities Board's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the Public Utilities Board's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Public Utilities Board's comprehensive framework of internal controls is designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The goal of the independent audit, conducted by Long Chilton, L.L.P., is to provide reasonable assurance that the financial statements of the Public Utilities Board for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Long Chilton, L.L.P., concluded, based upon the audit; there is a reasonable basis for rendering an unqualified opinion. The Public Utilities Board's financial statements for the fiscal year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis

(MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Public Utilities Board's MD&A can be found immediately following the report of the independent auditors.

In accordance with standards established by the Governmental Accounting Standards Board's Statement No. 14, the Financial Reporting Entity, the Public Utilities Board meets the definition of a component unit of the City of Brownsville, Texas (City).

Profile

The Public Utilities Board was formed in 1960 to provide electrical, water, and wastewater services to its customers in the Brownsville area. Pursuant to the City's Charter, management, operation, and control of the City's combined water, wastewater, and electric utilities system is delegated to the Public Utilities Board. The Public Utilities Board is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member being the City's Mayor serving Ex-officio.

The **Electric System** provides retail electric service through its electric facilities to consumers inside and outside the city limits. The existing customer service area of the electric facilities encompasses approximately 133 square miles of Cameron County, including substantially the entire City (estimated by the Public Utilities Board at over 96%). The electric system serves a growing base of about 46,730 customers and serves a peak load of 286 MW. Current resources, mainly owned by the Public Utilities Board, are sufficient to cover peak demand.

The Public Utilities Board meets its power supply obligations through a combination of resources: (i) the operation of the Oklaunion Power Station, a coal-fired steam electric generating unit jointly owned and operated by Public Service Company of Oklahoma, AEP Texas North Company, AEP Texas Central Company, Oklahoma Municipal Power Authority (OMPA), and the Public Utilities Board entitling the Public Utilities Board to 124 MW of capacity, (ii) the operation of the Silas Ray Power Production Facilities owned and operated by the Public Utilities Board (composed of one conventional steam turbine unit and a re-powered steam turbine in combined cycle with a combustion turbine and a GE LM6000 gas turbine generator for an estimated gas fired capability of 114 MW), (iii) the operation of the Calpine/Hidalgo combined cycle Power Plant in which the Public Utilities Board has an ownership interest entitling it to 105 MW of capacity, (iv) economy energy purchases through an economy power interchange arrangement, (v) distributed generation of 7.5 MW.

Fuel and transportation contracts with a variety of suppliers are in place, limiting the Public Utilities Board's exposure to the volatile fuel commodity markets.

The **Water System** draws raw water from the Rio Grande River and consists of a river rock weir, a river pump station, two reservoirs providing 186.6 million gallons total capacity, and a raw water transport system. Surface water treatment is achieved by two water treatment plants providing 40 million gallons of total capacity; 20 MGD treatment capacity each. Two clear wells provide 6.84 million gallons storage capacity, and four elevated storage tanks provide 6 million gallons of elevated storage capacity. Water is pumped by three high-service pumping stations into the distribution system which consists of 638 miles of transmission and distribution mains. The Public Utilities Board mainly sells to residential and commercial customers, but also sells treated water on a wholesale basis to two other water distribution

companies that amount to approximately 4.88% of sales. The Public Utilities Board partnered with the Southmost Regional Water Authority and built a 7.5 million gallon reverse osmosis water treatment plant of which the Public Utilities Board has 92.91% ownership. This plant includes a 7.5 million gallon storage tank and a 0.75 million gallon clear well.

The Public Utilities Board has an annual allocation of municipal priority water rights from the Texas Commission of Environmental Quality (TCEQ) in the amount of 31,133.631 acre-feet of water which is dependent upon inflow to the Falcon and Amistad Reservoirs, which provides an estimated annual yield of 891 acre-feet. In addition, the Public Utilities Board holds Permit No. 1838 entitling it the right to 40,000 acre-feet of surplus water. The Public Utilities Board presently has a “Superior” water system as determined in accordance with current TCEQ regulations.

The Public Utilities Board’s water utility service area is subject to certification jurisdiction of the TCEQ. The Public Utilities Board has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the “extraterritorial jurisdiction”) of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the water system. All of its treated water is supplied by the Public Utilities Board’s water system.

The **Wastewater System**, consisting of collection and treatment facilities, includes gravity wastewater collection lines, 173 lift stations and two treatment plants. Wastewater is transported by lift stations and associated force mains to one of two wastewater treatment plants – the Robindale Plant or the South Plant. The Robindale Plant has a design capacity of 10 MGD with provision for modular expansion of an additional 10 MGD of capacity. The Robindale Plant provides secondary waste treatment including activated sludge, secondary settling, aerobic digestion, sludge thickening, and land disposal of sludge. The South Plant was originally designed as a trickling filter plant with a treatment capacity of 5 MGD. In 1971, it was expanded to a capacity of 7.8 MGD and was further modified in 1978. The South Plant’s expansion from 7.8 MGD to 12.8 MGD is complete and in operation. The treatment process was changed to activated sludge and the anaerobic digesters were converted to use the aerobic process. Sludge thickeners were installed and sludge is disposed of by land application.

The wastewater system is subject to regulation by the EPA and the TCEQ with regards to operations of the facilities and the water quality of the wastewater plants’ effluent.

The Public Utilities Board has the authority to provide wastewater service both inside and outside the city limits. The Brownsville Navigation District owns and operates its own wastewater treatment facilities. There is no competition between the Public Utilities Board’s wastewater system and the Brownsville Navigation District since the Brownsville Navigation District operates in defined areas in which the Public Utilities Board wastewater system has no water lines.

Mission Statement

By 2018 the Public Utilities Board will be the foundation for our community’s future by providing reliable infrastructure, competitive rates, and exceptional customer service.

Economic Conditions and Outlook

The City is the county seat of Cameron County. It is the southernmost city in Texas and the largest city in the Lower Rio Grande Valley. In Texas, Brownsville is second only to San Antonio in historical significance. Its location is attractive, since it is the closest to the major tourism and business travel attractions of the area: South Padre Island, Mexico, and the Gladys Porter Zoo, rated as one of the ten best zoos in the United States. Brownsville is also one of the top five cities in Texas as a destination location.

The City is located about 25 miles inland from the Gulf of Mexico on the north bank of the Rio Grande River directly across from Matamoros, Mexico, which it joins by three international bridges. The City serves as a trade center for much of the Lower Rio Grande Valley.

According to the U.S. Census Bureau Brownsville's population for 2000 and 2010 were 139,722 and 175,023, respectively for an increase of 25.27 percent. Brownsville's population increased approximately 2.5 percent each year since 2000. The City is the sixteenth largest city in the state of Texas. The demographics of Brownsville's population can be summed up as young and fast growing. The median age is 29.5 years versus a national average of 37.2 years. 34% of all persons in the City are younger than 18 years of age. Only 9.9% are older than 65 years.

A basis for preparing the CAFR for the Public Utilities Board was the identification of the reporting entity. A component unit was considered to be part of the Public Utilities Board's reporting entity when it was concluded that the Public Utilities Board was financially accountable for the entity or the nature and significance of the relationship between the Public Utilities Board and the entity was such that exclusion would cause the Public Utilities Board's financial statements to be misleading or incomplete.

The reporting entity of the Public Utilities Board consists of the primary government and a blended component unit, Southmost Regional Water Authority (the Authority). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority provides treated water to various areas of Cameron County.

Major Initiatives

Villanueva Colonia Project

On June 21, 2012, the Texas Water Development Board (TWDB) awarded the Public Utilities Board a grant commitment for \$2,000,000, from the Economically Distressed Areas Program (EDAP), to fund the construction of the Villanueva Colonia Wastewater Improvement Project. This project will provide first-time access to the public utility sewer system for residents in the Villanueva Colonia Project areas. The proposed conventional wastewater collection system has an estimated construction cost of \$2,077,000 of which \$77,000 will be paid with local funding. The collection system will be designed based on a build-out population to the year 2030 with a population of 401 persons requiring 108 connections. The collection system will consist of approximately 6,276 linear feet of proposed wastewater collection lines ranging in size from 8"-15" PVC. The proposed collection system will tie into existing Public Utilities Board Lift Station No. 109, which based on calculations, has sufficient capacity for the proposed area.

Grant project costs through September 30, 2013 were \$1,013,201. The estimated completion date is June 2014.

Farm to Market (FM) 511-802 Colonias Project

The Public Utilities Board and the TWDB finalized the design on the FM 511 and 802 Wastewater Improvement. The project cost for the design portion was \$1.3 million. TWDB funded \$1.08 million, and the Public Utilities Board funded \$291,000. The design of this project was completed in March 2012. Meanwhile, the Public Utilities Board successfully submitted a grant application for the construction phase and was awarded on April 19, 2012 a grant of \$24,505,000 and a loan of \$840,000 from the Economically Distressed Areas Program. TWDB performed an Environmental Review of the FM511 and 802 Wastewater Improvement project proposed by the Public Utilities Board, pursuant to environmental assessment requirements of Sections 363.14 and 363.13 of the TWDB Rules. The Wastewater system improvement project proposed by the Public Utilities Board will construct seven lift stations; upgrade three existing lift stations, 91,900 linear feet of 8, 10, and 12-inch gravity sewer lines, 43,500 linear feet of 4, 6 and 8-inch force mains and 874 service connections. The estimated completion date is February 2015. Through September 30, 2013 TWDB has funded \$4,456,647 of project costs while the Public Utilities Board has paid \$840,000 in project costs.

Brownsville Seawater Desalination Pilot Plant Study

The seawater desalination pilot plant study was completed in 2008. Because of urgent water needs and strong regional support, the Brownsville project was the only one of three feasibility studies tapped to proceed to a pilot phase. In 2006, the TWDB awarded the project \$1.34 million in state funding; the Public Utilities Board contributed \$1,466,000 in cash plus \$384,000 in in-kind assistance. The Port of Brownsville donated the site for the pilot plant.

The study collected ocean water data and evaluated the performance of different treatment approaches for desalinating seawater by use of reverse-osmosis membranes. Based on the results of the study, the Public Utilities Board has determined key characteristics and estimated the project cost for a 25 million gallons per day (MGD) seawater desalination facility at \$171.0 million. The Public Utilities Board, although committed to further diversifying its water supply sources by adding seawater desalination to its portfolio, does not presently have the water demand nor the financial resources to implement the full-scale project. Nevertheless, to continue advancing the development of seawater desalination supplies, it has formulated a phased approach which entails building an initial 2.5 million gallons per day production and demonstration facility that would eventually be expanded into the full-scale 25 million gallons per day facility originally envisioned. The Public Utilities Board proposes to implement the first phase of the project by installing a 2.5 million gallons per day production prototype on the south bank of the Brownsville Ship Channel. The proposal includes designing and building some of the facilities to the project's ultimate 25 million gallons per day production capacity. The cost of the proposed initial phase is \$60.0 million. The proposed funding package consists of three essential components: grants, State Participation Program Funding, and Water Infrastructure Funding.

The Brownsville-Matamoros Weir and Reservoir Project

The location of the project will be approximately eight river miles downstream of the Gateway International Bridge in Brownsville. The reservoir will extend about 42 river miles within the banks of the Rio Grande River through mostly urbanized areas. The average width of the pool is 110 feet and the maximum water depth is 26 feet above mean sea level. The Brownsville-Matamoros Weir and Reservoir will be able to hold up to 6,000 acre-feet of water, and provide 40,000 acre feet of water per year (about 13 billion gallons) for the potable water supply of the Brownsville area.

The impact on water supply is an increase of approximately 35.7 million gallons per day. This project is on hold pending future financing determinations by Mexico and the Public Utilities Board. Federal grants from the Environmental Protection Agency (EPA) for this project have been approved for use on the Public Utilities Board's Robindale Wastewater Treatment Plant expansion currently in Construction with the expected completion date of April 2014.

69-138kV Conversion Project

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Sanitary Sewer Overflow Projects

Construction is nearing completion for the Public Utilities Board Sanitary Sewer Overflow Projects funded by the American Recovery and Reinvestment Act of 2009 Clean Water State Revolving Fund (ARRA-CWSRF). The Public Utilities Board authorized 13 construction contracts for a total amount of \$50,564,652 of which \$46,140,492 is funded by federal grant stimulus funds through the TWDB. Remaining costs are funded locally. As of September 30, 2013, construction was substantially complete. Public Utilities Board staff and Contractors met federal regulatory requirements, such as Buy American Act for manufactured goods and Davis-Bacon Act for prevailing wages. Major wastewater collection system improvements were accomplished with this project. Improvements consist of rehabilitation, replacement, and upgrades to aged gravity mains, pressure mains, and lift stations throughout the service area. Project locations include Resaca Blvd., W & E Jackson St., Los Ebanos Subdivision, West

Brownsville, Ramireno, Boca Chica Blvd., and Central Blvd., Old Hwy 77 and Ruben Torres Blvd. (FM 802), Southmost, Coffee Port and Old Port Isabel Roads, South Padre Island Hwy (SH 48), and Lincoln and Grant Streets.

Southmost Regional Water Authority Micro-filtration Project

On December 7, 2009, the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply contract Revenue Bonds, Series 2009B through the TWDB Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 2.75 million gallon per day of capacity through upgrading certain pumps within the existing well field and adding two additional reverse osmosis trains.

Project costs through September 30, 2013 were \$5.04 million. The estimated completion date is January 2015.

Robindale Wastewater Treatment Plant Rehabilitation and Expansion Project

The Public Utilities Board in connection with the Environmental Protection Agency (EPA) is proceeding with renovating and expanding the existing Robindale Wastewater Treatment Plant to meet current needs and facilitate population growth projections that will provide treatment of a maximum 14.5 MGD annual average flow of wastewater upon completion of the improvements. The current plant discharge of Ammonia-Nitrogen is about 14 mg/l. The Texas Commission on Environmental Quality (TCEQ) has imposed an Ammonia-Nitrogen effluent limit that the existing Robindale Wastewater Treatment Plant was not originally designed to treat. The new design and construction will meet the following daily average discharge limitations: 20 mg/l CBOD, 20 mg/l TSS and 4 mg/l of Ammonia-Nitrogen. TCEQ granted approval of the renovation and expansion to the Robindale Wastewater Treatment Plant on April 24, 2012. The Public Utilities Board commenced construction on July 2012, with completion no later than April 2014.

The Public Utilities Board is using local and federal funding sources to complete the Robindale Wastewater Treatment Plant Rehabilitation and Expansion Project. Total estimated cost for the Design-Build project is \$37.5 million. EPA continues supporting this project with \$15.8 million and has reimbursed \$15.09 million as of September 30, 2013. The remaining cost of this project will be covered with local funds.

Water Meter Replacement Project

On June 14, 2010, the Public Utilities Board approved the funding for a Water Meter Replacement Project as recommended by a 2007 Water Audit performed by JBS Associates. JBS Associates recommended replacing all water meters that exceeded the average expectancy of ten years. The Water Meter Replacement Project was completed in fiscal year 2012, and a total of 10,300 meters were

replaced throughout the City of Brownsville. The total project costs as September 30, 2013 were \$783,805 and were funded with local funds.

Resaca Restoration Project

Resacas are former distributaries of the Rio Grande River. They now serve as urban waterways throughout the City of Brownsville. The central focus of the Resaca Restoration Project involves the removal of accumulated bottom sediments through dredging, which will increase both the depths and storage capacity of the resacas. It is anticipated that the depths of most resacas will be restored from less than two (2) feet in some areas to seven (7) or eight (8) feet. Plans for dredging the resacas have been designed to improve water quality, promote erosion control and bank stabilization, while also improving habitat conditions for fish and other aquatic wildlife. During rainy seasons or hurricanes, the dredged resacas will provide better flood control by storing flood waters that otherwise could inundate adjacent developments.

The project scope will be implemented in phases. Phase One will include dredging several segments of the Town Resaca system. These segments include the Dean Porter Park resaca, the Gladys Porter Zoo resacas, the Resaca Boulevard resaca, and the City Cemetery resaca. The Public Utilities Board began by undertaking planning studies and submitting proposed plans to the U.S. Army Corps of Engineers and the Texas Commission on Environmental Quality. The Phase One work has been authorized, and portable hydraulic dredgers and sediment processing equipment has been delivered and installed. Actual dredging activities began in March of 2013. The dredged sediment handling process consists of a series of treatment components designed specifically to remove the solid material from the dredged slurry extracted from the resacas, leaving essentially clean water for discharge back into the resacas. Multiple separators remove and stockpile coarse debris, sand particles and fine particles which are then hauled from the processing site to appropriate disposal areas.

The Public Utilities Board contributed \$1.7 million in staff, engineering and other services and \$5.9 million in equipment and other costs for a total incurred cost of \$7.6 million as of September 30, 2013.

Filter System Rehabilitation at Water Treatment Plants No. 1 and 2 Project

On February 13, 2012, the Public Utilities Board approved the funding for the Filter System Rehabilitation at Water Treatment Plants No. 1 and 2 Project. Freese & Nichols, Inc. was hired to evaluate the filters and their associated components at both water treatment plants. Freese and Nichols contract for the design and the preparation of plans and specifications for the Rehabilitation of the Filter Systems at Water Treatment Plants No.1 and 2 was executed February 27, 2013. Freese & Nichols, Inc. has provided final plans and specifications for the replacement of the filters at both water treatment plants (eight filters at Water Treatment Plant No. 1 and eight filters at Water Treatment Plant No. 2) which entails the replacement of the existing under drain systems, installation of an air backwash system including piping, air release valves for the backwash lines, redundant backwash facilities, canopy type covers for the unenclosed filters at Water Treatment Plant No. 1, replacement of the filter media, increasing the depth of the filter media, coating the interior concrete of each filter cell, the replacement of instrument air filters, the replacement of instrumentation air piping, air blowers with ventilated blower buildings at each plant, new backwash pumps at Water Treatment Plant No. 1 and No. 2, new high service pump at Water Treatment Plant No. 1's High Service Pump Station No. 2 which will include a new motor

and variable frequency drive (VFD), a new motor and VFD at Water Treatment Plant No. 2's high service pump station, and associated electrical and instrumentation related to the filter improvements and high service pump station modifications at both Water Treatment Plants No. 1 and No. 2. The total estimated cost for both plants is \$7,245,000.

Martinal-FM 511 Waterline Loop

The Public Utilities Board is planning a waterline loop from the Martinal Elevated Storage Tank No. 7 to FM 511 near the Rio Del Sol Subdivision. This project will eliminate dead end mains by looping the waterline system, thereby improving water circulation, water quality, and pressure flow. The project's estimated cost is \$3,987,406. The project is currently under design; approx. 70% of the design is complete. Design is expected to be finished by end of February, 2014.

24-Inch Waterline Loop Adjacent to Sunrise Mall

The Public Utilities Board is constructing the final waterline segment between Water Treatment Plant No. 1 and the Southmost Regional Water Authority's Treatment Plant. This waterline loop will connect the 24-inch water main along Morrison Road directly to the existing 30-inch waterline loop on FM 802 near Expressway 77/83, thereby improving water circulation, water quality and pressure flow. The project's current construction cost is \$1,025,000. Project construction is 99% complete, only pending one 16-inch tie-in. This is expected to be completed by end of February 2014.

Proposed New Electric Generation Facility

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Long-term Financial Planning

The Public Utilities Board's current electric, water, and wastewater capital improvement plan identifies projects for a five-year period ending September 30, 2017. The electric capital improvement plan identifies approximately \$89.2 million in generation, transmission, and distribution projects; \$32.1 million are projected to be bond financed. The water capital improvement plan identifies approximately \$24.7 million in projects, of which approximately 37.4% are projected to be bond financed while the wastewater capital improvement plan identifies approximately \$84.3 million in projects, of which approximately 21.5% are projected to be bond financed. The Public Utilities Board is currently evaluating the need to construct a 2.5 million-gallon-per-day seawater desalination production and demonstration facility that would eventually be expanded into the full-scale 25 million-gallons-per-day facility.

On May 1, 2013, the Public Utilities Board issued \$118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bond proceeds plus a bond premium of \$16,723,650 were used to defease \$109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds and funded \$11,818,500 of Public Utilities Board Senior Lien Reserve Fund.

Cash Management Policies and Practices

As required by the provisions of Chapter 2256 of the Texas Government Code, the Public Utilities Board updates its Investment Policy annually. A primary objective of the Public Utilities Board's Cash and Investment Program is the safety and preservation of the principal. The Investment Policy authorizes the Public Utilities Board to invest in treasury notes, agencies and instrumentalities, and other investments guaranteed by the U.S. Treasury or the State of Texas, or investments rated by a national rating company at "A" or better. The Investment Policy also authorizes investments in local government investment pools and in certificates of deposit issued by banks domiciled in the State of Texas that are FDIC insured. Investments are made only with certified brokers/dealers as required by the Investment Policy.

During FY 2013, the Public Utilities Board's cash portfolio earned an average yield of 0.34%. The Public Utilities Board's cash deposits at September 30, 2013, were entirely covered by the Federal Deposit Insurance Corporation.

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Utilities Board for its comprehensive annual financial report for the fiscal year ended September 30, 2012. This was the seventh consecutive year that the Public Utilities Board has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated services of the entire staff of the Public Utilities Board's Finance Division. Each member of this division has our sincere appreciation for the contributions made in the preparation of this report.

We would also like to acknowledge the support of the Board for its continuing interest in the development of a strong financial system to serve the customers of the Public Utilities Board.

Respectfully submitted,

Leandro G. García, CPA
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Public Utilities Board
of the City of Brownsville
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

PRINCIPAL OFFICIALS

Board Members

Oscar D. Garcia, Vice-Chairman¹
Noemi Garcia, Secretary/Treasurer
Arturo R. Farias, Member
Emmanuel Vasquez, Member
Edna Ocegüera, Member
Nurith Galonsky, Member
Mayor Antonio Martinez, Ex-Officio Member

Board Administration

John S. Bruciak, P.E., General Manager & CEO
Fernando Saenz, P.E., Assistant General Manager & COO
Leandro G. García, CPA, Chief Financial Officer

Consultants and Advisors

Trevino & Bodden, L.L.P.
Brownsville, Texas

Davidson Troilo Ream & Garza, P.C.
San Antonio, Texas

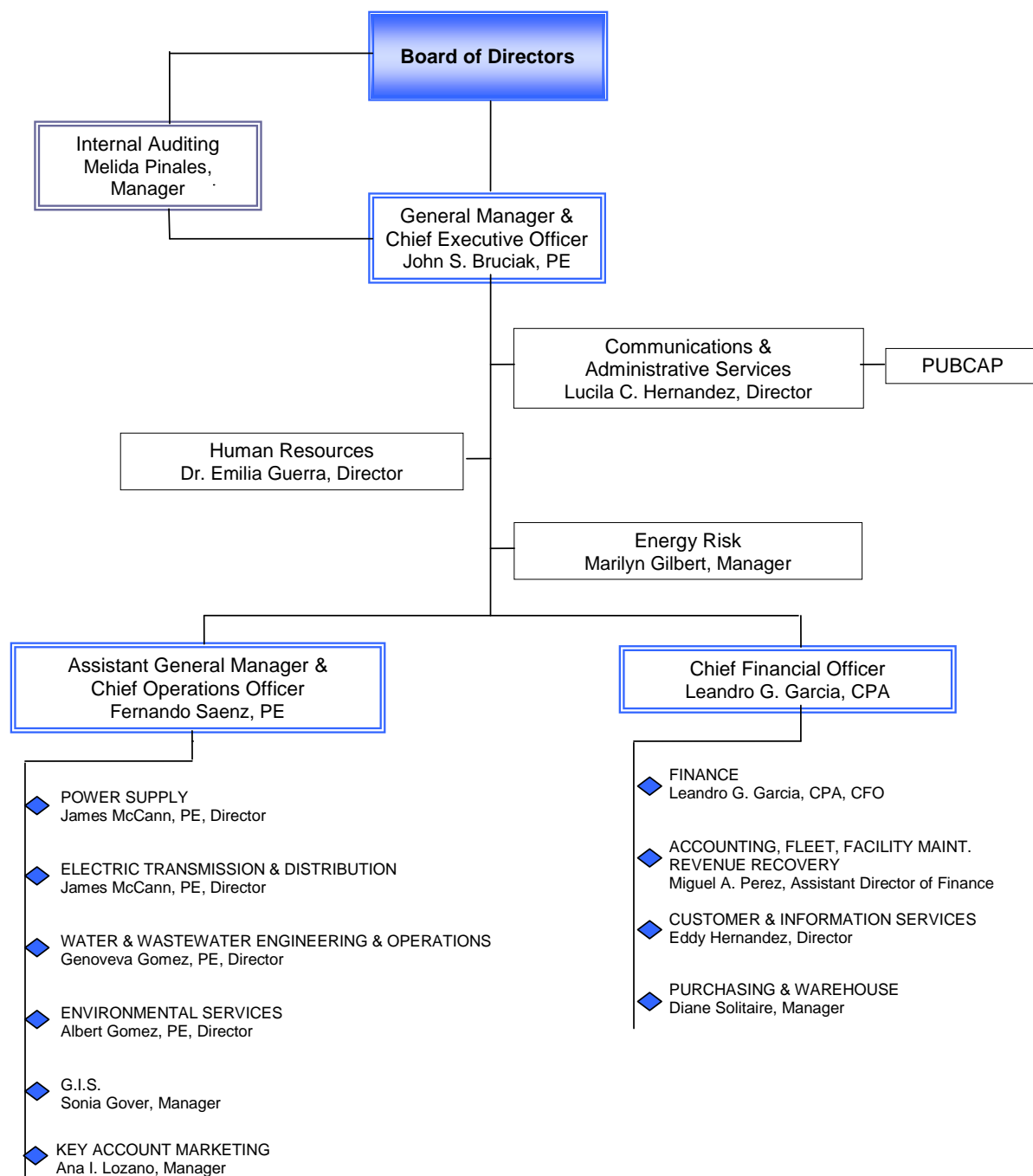
Long Chilton, L.L.P.
Brownsville, Texas

Estrada Hinojosa & Company, Inc.
Dallas, Texas

Andrews Kurth, L.L.P.
Houston, Texas

¹ Vice-Chairman has taken on the capacity of Chairman.

Organizational Chart



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Public Utilities Board of the City of Brownsville, Texas ("Public Utilities Board"), a component unit of the City of Brownsville, Texas, and its blended component unit as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Public Utilities Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Public Utilities Board and its blended component unit, as of September 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Public Utilities Board as of September 30, 2012, were audited by other auditors whose report dated January 23, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages v-xv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Utilities Board's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal/state awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal/state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of the Public Utilities Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Utilities Board's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Long Chilton LLP", written in a cursive style.

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
March 5, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Public Utilities Board of the City of Brownsville, Texas' (Public Utilities Board) annual financial report presents management's analysis of its financial performance during the fiscal years that ended on September 30, 2013 and 2012. Please read it in conjunction with the financial statements that follow this section.

Overview of Annual Financial Report

The financial statements report information about the Public Utilities Board using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include the balance sheets, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements.

The balance sheets present the financial position of the Public Utilities Board on a full accrual, historical cost basis. The balance sheets present information on all of the Public Utilities Board's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Public Utilities Board is improving or deteriorating.

While the balance sheets provide information about the nature and amount of resources and obligations at year-end, the statements of revenues, expenses, and changes in net position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Public Utilities Board's recovery of its costs.

The statements of cash flows present changes in cash and cash equivalents, resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Public Utilities Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Financial Analysis

The following condensed financial information and other selected information serve as the key financial data and indicators for management monitoring and planning.

Financial Condition

One of the most important questions asked about the Public Utilities Board's finances is "Is the Public Utilities Board, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Public Utilities Board's activities in a way that will help answer this question. These two statements report the net position of the Public Utilities Board and changes in them. Increases or decreases in net position over time, is a useful indicator of whether the Public Utilities Board's financial health is improving or deteriorating.

The Public Utilities Board's assets exceeded liabilities by \$430.0 million at the close of fiscal year 2013. Net position increased by \$19.6 million or 4.8% compared to the previous fiscal year. This increase in net position is a good indicator that the Public Utilities Board's financial health continues to progress. Net position in net investment in capital assets, totaled \$271.7 million and \$244.6 million for fiscal years 2013 and 2012, respectively.

The restricted net position of \$101.3 million and \$111.3 million for fiscal years 2013 and 2012, respectively, are subject to external restrictions on how they may be used. The remaining balances of unrestricted net position, totaling \$57.0 million and \$54.5 million for fiscal years 2013 and 2012 respectively, may be used to meet the Public Utilities Board's ongoing obligations. The Public Utilities Board's changes in net position are further analyzed below in Table A-1 and Table A-2.

On August 8, 2011, the Public Utilities Board of Directors approved an adjustment to electric, water and wastewater rates by 5% each pursuant to the authority granted by the City Commission in September 2010. The approved rate adjustments became effective October 1, 2011.

As part of the increase to the electric utility rates, the Public Utilities Board's action also included revising the rate structure for the residential customers from a single-tier energy charge to a two-tier energy charge rate design. This new rate structure is intended to help promote conservation without impacting any of the electric system's low consumption consumers (consumers that use less than 500 kWh).

The rate increases for the water and wastewater systems were applied across the board to all classes. The residential rate designs for both systems are already established to promote conservation with multi-tiers in the water system and two-tiers in the wastewater system.

The City Commission adopted a five-year rate proposal on December 17, 2012 that included increases sufficient to meet projected costs and debt coverage requirements. A 7% rate increase went into effect on April 1, 2013 and October 1, 2013 for the electric utility and a 6% and 2% rate increase, respectively, for the water and wastewater utilities also went into effect October 1, 2013.

While affordability is always a concern, the rate increases implemented will allow the Public Utilities Board to continue investing in core service areas including energy reliability, water quality, and wastewater treatment services.

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Net Position

A summary of the Public Utilities Board's net position is presented in Table A-1.

TABLE A-1
SUMMARY OF BALANCE SHEETS
September 30, 2013, 2012 and 2011
(in millions of dollars)

	2013	2012	2011
Current and other assets	\$ 217.6	\$ 221.0	\$ 216.8
Capital assets	608.3	575.1	556.2
Total assets	<u>825.9</u>	<u>796.1</u>	<u>773.0</u>
Current liabilities	56.5	69.4	64.1
Long-term liabilities	339.4	316.3	325.0
Total liabilities	<u>395.9</u>	<u>385.7</u>	<u>389.1</u>
Net position:			
Investment in capital assets	271.7	244.6	222.0
Restricted	101.3	111.3	102.7
Unrestricted	57.0	54.5	59.2
Total net position	<u>\$ 430.0</u>	<u>\$ 410.4</u>	<u>\$ 383.9</u>

The Public Utilities Board's net position as of September 30, 2013 increased 4.8% to \$430.0 million and increased 6.9% to \$410.4 million as of September 30, 2012. The increases in 2013 and 2012 are attributed to income earned on operations of the utility system.

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TABLE A-2
REVENUES, EXPENSES AND CHANGES IN NET POSITION
For Fiscal Years Ended September 30, 2013, 2012 and 2011
(in millions of dollars)

	2013	2012	2011
Operating revenues - sales	\$ 166.1	\$ 165.6	\$ 168.1
Investment and interest income	0.6	0.7	0.6
Total revenues	<u>166.7</u>	<u>166.3</u>	<u>168.7</u>
 Purchased power and fuel	 53.9	 48.0	 52.5
Personnel services	30.6	28.0	27.4
Materials and supplies	7.4	7.3	7.2
Repairs and maintenance	2.0	2.8	3.2
Contractual and other services	19.3	19.0	18.2
Depreciation expense	27.4	23.6	28.3
Interest expense	15.7	15.6	16.1
Loss on disposition of capital assets	0.1	1.4	0.4
Non-operating expense	1.5	0.6	2.1
Payments to the City of Brownsville	7.2	7.7	7.5
Total expenses	<u>165.1</u>	<u>154.0</u>	<u>162.9</u>
 Changes in net position before capital contributions	 1.6	 12.3	 5.8
Capital contributions	18.0	14.2	20.8
Change in net position	<u>19.6</u>	<u>26.5</u>	<u>26.6</u>
 Beginning net position	 410.4	 383.9	 357.3
Ending net position	<u>\$ 430.0</u>	<u>\$ 410.4</u>	<u>\$ 383.9</u>

While the Statement of Net Position shows the change in financial position of net position, the Statements of Revenues, Expenses, and Changes in Net Position, provides answers as to the nature and source of these changes. In 2013, the Public Utilities Board had an increase in operating revenues of \$500,000 due to a combination of utility system revenue increases and decreases. Some notable changes in operating revenues for 2013 include an increase of \$7.9 million in residential and commercial electric operating revenues and a decrease of \$7.3 million in sales for resale and other sales. Capital contributions also increased by \$3.8 million. Capital contributions may vary greatly from year to year based on grant awards and the cyclical nature of housing, commercial and industrial development in the City.

Some notable changes in expenses for 2013 were increases in purchased power and fuel of \$5.9 million, an increase in personal services of \$2.6 million and an increase in depreciation expense of \$3.8 million. Overall, the Public Utilities Boards net position increased \$19.6 million in 2013.

In 2012, the Public Utilities Board had a decrease in operating revenues \$2.5 million due to a combination of utility system revenue increases and decreases. Residential and commercial electric operating revenues decreased \$1.9 million, sales for resale decreased \$2.5 million, other sales increased \$1.0 million, water sales increased \$0.5 million, and wastewater sales increased \$0.4 million. Capital contributions also decreased by \$6.6 million.

Capital contributions may vary greatly from year to year based on grant awards and the cyclical nature of housing, commercial and industrial development in the City.

Some notable changes in expenses for 2012 were decreases in purchased power and fuel of \$4.5 million, a decrease in depreciation expense of \$4.7 million, and an increase in loss on disposition of capital assets of \$1.0 million. Overall, the Public Utilities Board's net position increased \$26.5 million in 2012.

Capital Assets

At the end of 2013 and 2012, the Public Utilities Board's net capital assets in Table A-3 of \$608.3 million and \$575.1 million, respectively, were a 5.8% or a \$33.2 million increase and a 3.4% or a \$18.9 million increase, respectively, from fiscal year 2012 and 2011.

TABLE A-3
CAPITAL ASSETS
September 30, 2013, 2012 and 2011
(in millions of dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 24.9	23.3	\$ 14.7
Plant	687.7	630.4	619.5
Buildings and structures	75.0	74.8	73.9
Improvements other than buildings	45.9	45.7	44.5
Equipment	116.7	108.2	107.5
Construction in progress	87.5	95.7	79.2
Subtotal	<u>1,037.7</u>	<u>978.1</u>	<u>939.3</u>
Less accumulated depreciation	<u>(429.4)</u>	<u>(403.0)</u>	<u>(383.1)</u>
Net capital assets	<u><u>\$ 608.3</u></u>	<u><u>575.1</u></u>	<u><u>\$ 556.2</u></u>

The following is a summary of some of the major improvements to the utility system during fiscal year 2013:

- \$1.8 million to complete Electric Steam Production Projects
- \$11.2 million to complete Electric Transmission and Distribution Projects
- \$0.7 million to complete Electric General Projects
- \$11.4 million to complete Water Distribution and Supply Projects
- \$34.7 million to complete Wastewater Collection and Pumping Projects
- \$0.4 million to complete General Facility Projects

The following is a summary of some of the major improvements to the utility system during fiscal year 2012:

- \$1.0 million to complete Electric Steam Production Projects
- \$2.8 million to complete Electric Transmission and Distribution Projects
- \$0.4 million to complete Electric General Projects
- \$9.6 million to complete Water Distribution and Supply Projects
- \$6.7 million to complete Wastewater Collection and Pumping Projects
- \$5.4 million to complete General Facility Projects

At September 30, 2013 and 2012, the Public Utilities Board had contractual obligations totaling approximately \$60,239,151 and \$26,797,084, respectively, for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds.

Additional information on the Public Utilities Board's capital assets can be found in Note 3 to the financial statements on pages 31-32 of this report.

Debt Administration

The Public Utilities Board's outstanding debt is summarized as follows:

TABLE A-4
OUTSTANDING DEBT
September 30, 2013, 2012 and 2011
(in millions of dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue bonds, net	\$ 344.8	321.0	\$ 329.8
Commercial Paper	4.0	24.5	20.0
Total	<u>\$ 348.8</u>	<u>345.5</u>	<u>\$ 349.8</u>

Additional information on the Public Utilities Board's debt can be found in Notes 5 and 6 on pages 33-40 of this report.

The Public Utilities Board continues to have insured bond ratings from the national rating agencies. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned short term insured ratings of A-1+, and Fitch Ratings has assigned short term insured ratings of F1+. The Public Utilities Board underlying ratings on its senior lien debt are "A2", "A+" and "A+" by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

Revenue bonds outstanding at September 30, 2013 and 2012 were \$337,553,000 and \$319,717,000, respectively. Interest on bonds is due semi-annually on March 1 and September 1, and the principal is due annually on September 1. Revenue bond debt service coverage for the Public Utilities Board's priority and second lien obligations was calculated at 2.04 and 2.47 times at September 30, 2013 and 2012, respectively.

On January 15, 2003, the Public Utilities Board sold \$76,400,000 variable rate demand bonds as series 2002A and 2002B Utility System Subordinate Lien Revenue and Refunding Bonds. The bonds' variable rate was synthetically fixed at 2.576% until 2008 utilizing a swap financing strategy. The City Commission of the City of Brownsville,

Texas authorized the execution of a Rate Cap Agreement effective September 1, 2006 through September 1, 2011 to give an insurance against increasing short term rates. The Public Utilities Board executed an agreement with an eligible provider for a notional amount of \$41,880,000 with an interest rate cap of 4.50%. The notional amount of the original swap decreased to \$10,830,000 effective September 1, 2006 provided a synthetic fixed rate of 2.576%. Proceeds from the sale of the bonds were used to retire currently outstanding revenue bonds, to build, improve, extend, enlarge, and repair the system, and to pay costs of issuance of the bonds. On August 24, 2005, the Public Utilities Board sold \$163,725,000 in tax exempt bonds and \$56,855,000 in taxable bonds as part of a major debt restructuring. The tax exempt bonds, Series 2005A, provided proceeds to refund \$50,890,000 in Series 1995 outstanding obligations, \$50,000,000 in Series 2001A and \$50,000,000 in Series 2001B variable rate outstanding obligations, and \$7,250,000 in outstanding commercial paper notes, and provided \$20,000,000 in new money bonds. The taxable bonds, Series 2005B, provided proceeds to defease \$27,420,000 in Series 1992 outstanding obligations and \$22,120,000 in Series 1995 outstanding obligations.

On December 1, 2006 the Public Utilities Board issued \$601,000 City of Brownsville, Texas Utilities System Junior Lien Revenue Bonds, Series 2007 for the purpose of building, improving, extending, enlarging, and repairing the City's utilities system and to pay costs of issuance of the bonds.

The Public Utilities Board issued \$77,805,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2008. The refunding bonds provided proceeds to defease \$40,000,000 of Commercial Paper Notes, Series 2004, \$32,285,000 of the Series 2002A Utility System Subordinate Lien Revenue and Refunding Bonds, and \$13,415,000 of the Series 2002B Utility System Subordinate Lien Revenue and Refunding Bonds.

On February 28, 2011, the Public Utilities Board issued \$12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund \$6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and \$5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper notes.

On October 1, 2012, the Public Utilities Board issued \$840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from sale of the Obligations will be used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On May 1, 2013, the Public Utilities Board issued \$118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bonds provided proceeds to refund \$109,985,000 of Utility System Improvement and Refunding Bonds, Series 2005A. In addition, the proceeds provided funds of \$11,818,500 to make a cash deposit into the Debt Service Reserve Fund.

The Public Utilities Board's participation in the Southmost Regional Water Authority's (the Authority) desalination plant project was complete and operational during 2005. The Authority successfully issued \$30,975,000 in Water Supply Contract Revenue Bonds during fiscal year 2003 and has expended approximately 100.0% of bond proceeds in the construction of the desalination plant. The Series 2002 bonds were issued with insured ratings of "Aaa" and "AAA" by Moody's Investor Services and Fitch Ratings, respectively. The underlying ratings on the bonds are "A2" and "A" by Moody's and Fitch, respectively. The Public Utilities Board total interest in the project is 92.91%. The Authority is considered a blended component unit of the Public Utilities Board. As a participating owner, the Public Utilities Board is obligated to contribute its percentage allocation of the Authority's debt service obligations and annual system budget. The Public Utilities Board's total 2013 and 2012 contributions to the Authority were \$4,867,682 and \$5,616,176, respectively. The Public Utilities Board's participation in the

Authority's desalination project provides the City with an alternate, long-term, drought-resistant source of drinking water.

The Authority issued \$9,950,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2006. The refunding bonds provided proceeds to defease \$9,360,000 of the Series 2002 Revenue Bonds for the years 2019 and from 2028 through 2032.

On December 7, 2009 the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 1.0 million gallons per day of capacity through upgrading certain pumps within the existing well field and adding one additional reverse osmosis train.

On September 26, 2012, the Southmost Regional Water Authority issued \$13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

Request For Information

This financial report is designed to provide the reader with a general overview of the Public Utilities Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, P.O. Box 3270, Brownsville, TX 78523-3270. This report is available on the Public Utilities Board's website – www.brownsville-pub.com.

FINANCIAL STATEMENTS

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Balance Sheets

September 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 11,089,986	\$ 11,373,559
Investments	43,527,264	39,453,439
Receivables:		
Fees and services, net of allowance for uncollectible accounts of \$1,448,741 and \$1,100,391 in 2013 and 2012, respectively	35,371,699	34,849,429
Intergovernmental	5,791,848	985,632
Accrued interest receivable	145,707	129,441
Inventories	9,677,405	11,499,466
Prepays	939,216	1,317,468
Total unrestricted current assets	<u>106,543,125</u>	<u>99,608,434</u>
Current restricted assets:		
Cash and cash equivalents	7,231,902	3,579,238
Investments	99,224,385	113,120,376
Total restricted current assets	<u>106,456,287</u>	<u>116,699,614</u>
Total current assets	<u>212,999,412</u>	<u>216,308,048</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	608,281,653	575,058,141
Bond issue costs and other assets	4,661,207	4,728,247
Total non-current assets	<u>612,942,860</u>	<u>579,786,388</u>
Total assets	<u>\$ 825,942,272</u>	<u>\$ 796,094,436</u>

Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Balance Sheets - Continued
September 30, 2013 and 2012

Liabilities and Net Position	2013	2012
Current liabilities:		
Accounts payable	\$ 23,942,346	\$ 15,444,890
Accrued vacation and sick leave	5,589,597	5,097,978
Due to primary government	1,998,710	2,190,168
Deferred credit – fuel cost over recovery	4,566,753	7,141,176
Self insurance worker's compensation claims	83,754	26,259
Total unrestricted current liabilities	36,181,160	29,900,471
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	345,031	281,866
Accrued interest	1,271,142	1,586,207
Customer deposits	3,438,412	3,305,011
Current portion of revenue bonds payable	11,310,000	9,879,000
Commercial paper	4,000,000	24,450,000
Total current liabilities payable from restricted assets	20,364,585	39,502,084
Total current liabilities	56,545,745	69,402,555
Non-current liabilities:		
Revenue bonds payable net of unamortized premium and deferred refunding	333,450,785	311,152,557
Other post-employment benefits	5,848,063	5,041,550
Self insurance worker's compensation claims	96,257	72,453
Total non-current liabilities	339,395,105	316,266,560
Total liabilities	395,940,850	385,669,115
Net position:		
Net investment in capital assets	271,662,239	244,561,464
Restricted for:		
Debt service	3,331,157	2,761,707
Repair and replacement	76,485,758	88,793,974
Operating reserve	17,000,021	17,001,624
Fuel adjustment subaccount	2,500,000	2,000,000
Capital projects	1,974,426	843,424
Unrestricted	57,047,821	54,463,128
Total net position	430,001,422	410,425,321
Total liabilities and net position	\$ 825,942,272	\$ 796,094,436

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sales and service charges	\$ 170,446,499	\$ 169,799,255
Less utilities service to the City of Brownsville, Texas	<u>(4,274,184)</u>	<u>(4,228,001)</u>
Total operating revenues	<u>166,172,315</u>	<u>165,571,254</u>
Operating expenses:		
Purchased power and fuel	53,915,199	48,039,343
Personnel services	30,615,677	27,962,188
Materials and supplies	7,432,636	7,276,419
Repairs and maintenance	2,029,564	2,794,117
Contractual and other services	19,319,359	18,971,803
Depreciation	<u>27,366,045</u>	<u>23,601,822</u>
Total operating expenses	<u>140,678,480</u>	<u>128,645,692</u>
Operating income	<u>25,493,835</u>	<u>36,925,562</u>
Nonoperating revenues (expenses):		
Investment and interest income	564,334	672,133
Interest expense	(15,653,933)	(15,579,814)
Loss on disposition of capital assets	(116,447)	(1,417,327)
Other	(1,483,565)	(581,763)
Payments to City of Brownsville	<u>(7,188,692)</u>	<u>(7,738,354)</u>
Net nonoperating revenues (expenses)	<u>(23,878,303)</u>	<u>(24,645,125)</u>
Income before capital contributions	1,615,532	12,280,437
Capital contributions	<u>17,960,569</u>	<u>14,223,651</u>
Change in net position	19,576,101	26,504,088
Net position, beginning of year	410,425,321	383,921,233
Net position, end of year	<u>\$ 430,001,422</u>	<u>\$ 410,425,321</u>

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 170,192,465	\$ 174,287,045
Cash payments to suppliers for goods and services	(78,471,609)	(79,281,102)
Cash payments to employees for services	(30,436,599)	(28,433,797)
Net cash provided by operating activities	<u>61,284,257</u>	<u>66,572,146</u>
Cash flows from non-capital financing activities:		
Payments to City of Brownsville	<u>(7,380,150)</u>	<u>(7,810,211)</u>
Net cash used in non-capital financing activities	<u>(7,380,150)</u>	<u>(7,810,211)</u>
Cash flows from capital and related financing activities:		
Bond proceeds	152,891,603	395,000
Commercial paper proceeds	4,000,000	4,450,000
Premium on bond issuance	1,871,535	-
Bond issuance costs	(1,240,597)	-
Principal paid on capital debt - bond issues and commercial paper	(34,884,000)	(9,477,000)
Principal paid on capital debt - bond issues escrow	(124,975,000)	-
Interest paid on capital debt	(15,968,999)	(15,504,629)
Capital contributions	17,960,569	13,329,708
Acquisition and construction of capital assets	<u>(60,589,558)</u>	<u>(41,609,313)</u>
Net cash used in capital and related financing activities	<u>(60,934,447)</u>	<u>(48,416,234)</u>
Cash flows from investing activities:		
Interest received	577,265	757,523
Purchases of investment securities	(287,733,611)	(389,168,411)
Proceeds from sales of investment securities	<u>297,555,777</u>	<u>348,344,154</u>
Net cash provided by (used in) investing activities	<u>10,399,431</u>	<u>(40,066,734)</u>
Net increase (decrease) in cash and cash equivalents	3,369,091	(29,721,033)
Cash and cash equivalents, beginning of year	<u>14,952,797</u>	<u>44,673,830</u>
Cash and cash equivalents, end of year	\$ <u>18,321,888</u>	\$ <u>14,952,797</u>

Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Cash Flows - Continued

For the Fiscal Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 25,493,835	\$ 36,925,562
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,366,045	23,601,822
Non-operating expense	3,701,369	(982,498)
Provisions for uncollectible accounts	348,349	224,085
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(518,469)	2,005,566
(Increase) decrease in inventory	1,822,060	2,447,499
(Increase) decrease in prepaids	378,253	360,459
Increase (decrease) in accounts payable and accrued liabilities	4,639,677	2,882,502
Increase (decrease) in unearned revenues	2,540	(105)
Increase (decrease) in accrued vacation and sick leave	491,620	(8,685)
Increase (decrease) in deferred credit – fuel cost recovery	(2,574,423)	(991,028)
Increase (decrease) in customer deposits liability	133,401	106,967
Net cash provided by operating activities	<u>\$ 61,284,257</u>	<u>\$ 66,572,146</u>
Non-cash investing, capital, and financing activities:		
Contribution in aid of construction	\$ 248,200	\$ 893,943
Reconciliation of cash and cash equivalents per Statements of Cash Flows to the Balance Sheets:		
Cash and cash equivalents:		
Unrestricted	\$ 11,089,986	\$ 11,373,559
Restricted	<u>7,231,902</u>	<u>3,579,238</u>
Total Cash and Cash Equivalents	<u>\$ 18,321,888</u>	<u>\$ 14,952,797</u>

See accompanying notes to the financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies employed in the preparation of these financial statements.

(a) *The Reporting Entity*

The Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board), a component unit of the City of Brownsville, Texas (City), was formed in 1960 to provide electrical, water, and wastewater services to its customers in the Brownsville area. The financial statements of the Public Utilities Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Public Utilities Board is a component unit of the City of Brownsville, Texas based upon the selection of the governing authority. It is a separate operating authority established by the City's charter. Its purpose is to own, operate, and maintain a combined utilities system which provides the City and certain adjacent unincorporated areas with electricity, water, and wastewater services. The specific elements of oversight responsibility of the Public Utilities Board is that the City Commission appoints six of the seven-member governing board and the Mayor of the City serves Ex-Officio as the seventh member. Each appointed board member serves a four-year term. The Public Utilities Board does not have the right to encumber, sell, or hypothecate the utilities system. The specific elements of accountability for fiscal matters are (1) the City Commission is vested with the right to set utility rates and approve the issuance of debt and (2) the City has the right to share in the surplus, if any, of the Public Utilities Board. Further, the Public Utilities Board is not required to pay any property taxes or franchise taxes to the City and the City is not required to pay for the utility services furnished to the City by the Public Utilities Board. The financial statements presented here are also included in the Comprehensive Annual Financial Report of the City of Brownsville, Texas.

The reporting entity of the Public Utilities Board consists of the primary government (in this case, the Public Utilities Board) and a blended component unit, Southmost Regional Water Authority (the Authority). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority is reported as a blended component unit because the Public Utilities Board manages the day to day operations and owns 92.91% of the Authority entitling it to 92.91% of the total water allocation.

The Authority provides treated water to various areas of Cameron County. Essential disclosures related to the Authority are included in its complete financial statements. These statements may be obtained at P.O. Box 3270, Brownsville, Texas 78523-3270.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The financial statements are presented in accordance with accounting standards generally accepted in the United States of America for proprietary funds of governmental entities. The Public Utilities

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued*

Board complies with all applicable pronouncements of the GASB. The Public Utilities Board is accounted for as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is to recover the cost of operations through user charges. A proprietary fund is accounted for on the “economic resources” measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities are included on the balance sheet.

(c) *GASB Statement No. 34*

The Public Utilities Board adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, during the fiscal year ended September 30, 2002. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management’s Discussion and Analysis section, a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows. It requires the classification of Net Position into three components – Investment in Capital Assets; Restricted; and Unrestricted.

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

(d) *Current Year GASB Statement Implementations*

In fiscal year 2013, the Public Utilities Board implemented the following GASB statements:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, became effective for the Public Utilities Board beginning with its year ending September 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The requirements of statements No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statements No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have risen since the issuance of those Statements. This Statement modifies certain requirements for the inclusion of component units in the financial reporting entity.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(d) Current Year GASB Statement Implementations - Continued

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, became effective for the Public Utilities Board beginning with its year ending September 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinion
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, became effective for the Public Utilities Board beginning with its year ending September 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statements elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. At September 30, 2013 no items were required to be reported as deferred outflows or inflows of resources.

In fiscal year 2012, the Public Utilities Board implemented the following GASB statements:

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53, became effective for the Public Utilities Board beginning with its year ending September 30, 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(e) *Operating Revenues and Expenses*

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

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

(f) *Utility Service Revenue and Electric Purchased Power Expense*

Electric, water, and wastewater revenues are recognized as billed on a cycle basis with recognition of unbilled revenues at September 30, 2013 and 2012, based upon the meter reading dates for the unbilled portion of each cycle. Electric rate schedules include power cost adjustment clauses that permit recovery of purchased power costs, not included in base rates, and in the month after such costs are incurred. The Public Utilities Board charges to expense the cost of purchased power in the period of purchase.

(g) *Capital Assets*

Utility plant-in-service is stated at cost which generally includes the cost of contracted services and certain materials and labor. Maintenance and repairs of property and items determined to be less than units of property are charged to operating and maintenance expenses; major plant replacements are capitalized. Assets acquired through contributions, such as those from land developers, are capitalized at estimated fair value at the date contributed. Capital assets are defined by the Public Utilities Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of eighteen months.

Meter and line transformer inventory have been included in utility plant to conform to Federal Energy Regulatory Commission guidelines.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes in 2013 and 2012:

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(g) Capital Assets - Continued

<u>Classification</u>	<u>Range of lives</u>
Electric plant-in-service	30 to 50 years
Water & Wastewater plant-in-service	30 to 50 years
Buildings	30 to 50 years
Improvements other than buildings	25 to 50 years
Equipment	10 to 50 years
Vehicles	3 to 5 years

(h) Investments

The Public Utilities Board invests funds in accordance with its policy, bond indentures, and the Texas Public Funds Investment Act. Investments consist primarily of United States Treasury obligations and government-backed securities. Statutes authorize the Public Utilities Board to invest in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states, agencies, counties, cities and other political subdivisions of any state rated not less than A or its equivalent; certificates of deposit; certain commercial paper; certain mutual funds; and fully collateralized repurchase agreements.

The Public Utilities Board follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 31, the Public Utilities Board's general policy is to report short-term investments at amortized cost. All other investments are reported at fair value. The term "short-term" refers to investments that have a remaining term to maturity of one year or less at time of purchase. Fair value determinations of all securities are made on a quarterly basis.

(i) Inventories

Materials and supplies inventories are stated at average cost. Fuel and coal inventories are valued at cost using the last-in first-out method.

(j) Compensated Absences

The Public Utilities Board's annual vacation and sick leave policies allow employees to accumulate and vest in annual vacation and sick leave benefits up to specified limits. Upon termination, employees are paid for any unused vacation and sick leave with certain options available. The Public Utilities Board records its obligations for these unused benefits as they are earned by the employees.

(k) Other Assets

Other assets consist principally of revenue bond issuance costs. The revenue bond issuance costs are being amortized over the period during which the revenue bonds are outstanding.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(l) Cash Equivalents

For purpose of the Statements of Cash Flows, the Public Utilities Board considers money market accounts, certificates of deposit, and investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

(m) Budgets and Budgetary Accounting

The Public Utilities Board is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budget expenses are not included within the financial statements.

(n) Contingent Liabilities

The Public Utilities Board provides for contingent liabilities when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

(o) Recoverable Fuel Costs

Recoverable fuel costs represent fuel costs incurred by the Public Utilities Board which have not yet been billed to customers or which have been billed to customers based on estimated fuel costs and has not been incurred. The Public Utilities Board recovers these costs via the fuel adjustment charge assessed with the monthly utility bills. At September 30, 2013 and 2012, the Public Utilities Board had over collected \$4,566,753 and \$7,141,176, respectively, in current recoverable fuel costs. These monies are considered either a liability or receivable as the amounts deferred are expected to be offset by October fuel charges.

(p) Grant Revenue

Revenue from state and federal grants is recognized as earned to the extent of incurred program expenses. Grant funds are considered to be earned when all eligibility requirements have been met. Accordingly, when such funds are received in advance, they are recorded as unearned revenue.

(q) Restricted Net Position

Net position is restricted for the following purposes at September 30, 2013 and 2012:

	2013	2012
Debt Service	\$ 3,331,157	\$ 2,761,707
Repair and replacement	76,485,758	88,793,974
Operating reserve	17,000,021	17,001,624
Fuel adjustment subaccount	2,500,000	2,000,000
Capital projects	1,974,426	843,424
Total restricted net position	\$ <u>101,291,362</u>	\$ <u>111,400,729</u>

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(q) *Restricted Net Position - Continued*

The above restricted net position is all subject to restrictions externally imposed by creditors through debt covenants.

In accordance with bond covenants related to the funds and accounts and flow of funds, the Public Utilities Board is required to retain in the Plant Fund a reserve amount to pay operating and maintenance expenses of not less than two months of budgeted operating and maintenance expenses for the current fiscal year.

(r) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(s) *Comparative Data/Reclassifications*

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Public Utilities Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

(t) *Deferred Compensation Plan*

The Public Utilities Board offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Public Utilities Board employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997. The Public Utilities Board approved plan amendments such that plan assets are held in trust, with Nationwide Retirement Solutions, Inc. as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose. The Public Utilities Board does not have legal access to the resources of the deferred compensation plan; as such the plan is not reported in the Public Utilities Board's financial statements.

(2) DEPOSITS AND INVESTMENTS

(a) *Basis of Investments*

On December 10, 2012, the Public Utilities Board approved a revised Investment Policy which included an "Investment Strategy Statement" that addressed the understanding of investment suitability, the preservation and safety of principal, liquidity, marketability of the investment prior to maturity, diversification, and yield of the investment portfolio. In regards to the safety and risk of

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(2) DEPOSITS AND INVESTMENTS - Continued

(a) *Basis of Investments - Continued*

investments, the Public Utilities Board abided by the Investment Policy that requires all available funds to be invested in conformance with state and federal regulations, applicable bond ordinance requirements, and GASB's standards. Each investment transaction shall seek to first and foremost ensure that capital losses are avoided, whether they are from securities' defaults or erosion of market value.

The Public Utilities Board adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, issued March 2003, and the Investment Policy has been revised to fully reflect all requirements in GASB Statement No. 40. The language requirements for this statement are fully formalized in writing.

The Public Utilities Board's bank deposits and Certificates of Deposit investments were entirely covered by the Federal Deposit Insurance Corporation or by collateral held by a third party safekeeping bank in the Board's name.

All deposits with financial institutions were carried at cost. As of September 30, 2013 and 2012, the Public Utilities Board had the following investments:

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

September 30, 2013

Investment Type	Amortized Cost	Weighted Average Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	\$ 8,784,277	53	6.20%	AAAm
Certificates of Deposit	19,300,161	56	13.50%	A1P1
U.S. Agencies	21,020,846	63	14.70%	AAA
Local Government Investment Pools	76,669,174	51	53.70%	AAAm
Commercial Paper	16,977,191	7	11.90%	A-1/P-1
Total	<u>\$ 142,751,649</u>		<u>100.0%</u>	

September 30, 2012

Investment Type	Amortized Cost	Weighted Average Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	\$ 40,102,262	1	26.29%	AAAm
Certificates of Deposit	6,944,704	21	4.56%	A1P1
U.S. Agencies	34,023,398	116	22.30%	AAA
Local Government Investment Pools	71,503,451	1	46.85%	AAAm
Total	<u>\$ 152,573,815</u>		<u>100.0%</u>	

Interest rate risk – In accordance with the Public Utilities Board’s Investment Policy the weighted average to maturity for the Public Utilities Board’s portfolio limits the maximum allowable maturity to two years by not exceeding the anticipated cash flow requirements. As of September 30, 2013 and 2012, the investment portfolio had maturities that met anticipated cash flow requirements.

Credit risk – The Public Utilities Board identifies and manages credit risks by following the Investment Policy. The Public Utilities Board implements its investment strategy, establishes and monitors compliance with investment policies and procedures, and consistently monitors prudent risk controls. The Public Utilities Board will seek to control the risk of loss by monitoring the ratings of portfolio positions to assure compliance with the rating requirements imposed by the Public Funds Investment Act. The Public Utilities Board also manages exposure to credit risk by limiting its investments to a

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

rating of “A” or better. As of September 30, 2013 and 2012, the Public Utilities Board held its security agencies investments with a rating of AA or above.

Custodial credit risk – In accordance with the Public Utilities Board’s Investment Policy, the financial institution must collateralize all funds with a minimum of 102% of the market value of the principal portion. The Public Utilities Board seeks to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Investment Policy.

The Public Utilities Board signed an agreement with its financial institution pledging funds to 102% minimum of the market value of the principal portion. As of September 30, 2013, the Public Utilities Board invested 13% in U.S. Agencies (Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation), which hold high ratings by nationally recognized statistical rating organizations. Investments in U.S. Agencies are proven to be the safest investments with minimal risk of loss. All investments are insured, registered, or held by an agent in the Public Utilities Board’s name; therefore, the Public Utilities Board is not exposed to custodial credit risk.

Concentration of credit risk – In accordance with the Investment Policy, the Public Utilities Board manages its credit risk exposure through diversification, and limiting its investments in each government-sponsored security to 75%. As of September 30, 2013 and 2012, the portfolio was in compliance as noted above.

TexPool – The State of Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool, along with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor’s.

As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor’s as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

TexSTAR – Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool providing short-term liquidity requirements. JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators under an agreement with the TexSTAR Board of Directors to provide investment and participant services for this pool. JPMorgan Chase Bank or its subsidiary J.P. Morgan Investor Services Company provides the custodial, transfer agency, fund

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

accounting, and depository services for this pool. At year end, TexSTAR was rated AAAM by Standard & Poor's.

TexasTERM/TexasDaily – TexasTERM/TexasDaily is a local government investment pool. Administrative and investment services to the pool are provided by PFM Asset Management LLC, under an agreement with the TexasTERM Advisory Board and act on behalf of the pool participants. At year end, TexasTERM was rated AAAF by Standard & Poor's. The Public Utilities Board reports its investment in TexasTERM at the fair value amount provided by TexasTERM, which is the same as the value of the pool share.

(3) CAPITAL ASSETS

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2013 were as follows:

	Beginning Balance 2012	Additions	Deletions	Reclassifications	Ending Balance 2013
Capital assets, not being depreciated:					
Land	\$ 23,260,814	\$ 1,571,987	\$ -	\$ -	\$ 24,832,801
Construction in progress	95,751,481	49,661,699	(204,560)	(57,691,821)	87,516,799
Total capital assets, not being depreciated	<u>119,012,295</u>	<u>51,233,686</u>	<u>(204,560)</u>	<u>(57,691,821)</u>	<u>112,349,600</u>
Capital assets, being depreciated:					
Plant	630,349,999	446,724	(583,305)	57,466,507	687,679,925
Buildings and structures	74,760,594	249,857	(2,374)	-	75,008,077
Improvements other than buildings	45,709,284	-	-	225,314	45,934,598
Equipment	108,251,801	8,980,298	(559,431)	-	116,672,668
Total capital assets, being depreciated	<u>859,071,678</u>	<u>9,676,879</u>	<u>(1,145,110)</u>	<u>57,691,821</u>	<u>925,295,268</u>
Less accumulated depreciation for:					
Plant	(287,547,523)	(17,692,311)	467,381	-	(304,772,453)
Buildings and structures	(31,324,434)	(1,845,616)	1,850	-	(33,168,200)
Improvements other than buildings	(32,057,296)	(2,026,678)	-	-	(34,083,974)
Equipment	(52,096,579)	(5,801,440)	559,431	-	(57,338,588)
Total accumulated depreciation	<u>(403,025,832)</u>	<u>(27,366,045)</u>	<u>1,028,662</u>	<u>-</u>	<u>(429,363,215)</u>
Capital assets, net	<u>\$ 575,058,141</u>	<u>\$ 33,544,520</u>	<u>\$ (321,008)</u>	<u>\$ -</u>	<u>\$ 608,281,653</u>

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to Financial Statements

September 30, 2013 and 2012

(3) CAPITAL ASSETS - Continued

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2012 were as follows:

	Beginning Balance 2011	Additions	Deletions	Reclassifications	Ending Balance 2012
Capital assets, not being depreciated:					
Land	\$ 14,674,460	\$ 8,587,595	\$ -	\$ (1,241)	\$ 23,260,814
Construction in progress	79,157,439	32,625,085	(880,842)	(15,150,201)	95,751,481
Total capital assets, not being depreciated	<u>93,831,899</u>	<u>41,212,680</u>	<u>(880,842)</u>	<u>(15,151,442)</u>	<u>119,012,295</u>
Capital assets, being depreciated:					
Plant	619,549,774	980,489	(2,144,142)	11,963,878	630,349,999
Buildings and structures	73,896,761	-	(168,551)	1,032,384	74,760,594
Improvements other than buildings	44,515,954	-	-	1,193,330	45,709,284
Equipment	107,475,668	2,615,267	(2,800,984)	961,850	108,251,801
Total capital assets, being depreciated	<u>845,438,157</u>	<u>3,595,756</u>	<u>(5,113,677)</u>	<u>15,151,442</u>	<u>859,071,678</u>
Less accumulated depreciation for:					
Plant	(273,841,013)	(15,281,367)	1,574,857	-	(287,547,523)
Buildings and structures	(29,759,142)	(1,654,017)	88,725	-	(31,324,434)
Improvements other than buildings	(28,575,067)	(3,482,229)	-	-	(32,057,296)
Equipment	(50,938,129)	(3,184,208)	2,025,758	-	(52,096,579)
Total accumulated depreciation	<u>(383,113,351)</u>	<u>(23,601,821)</u>	<u>3,689,340</u>	<u>-</u>	<u>(403,025,832)</u>
Capital assets, net	<u>\$ 556,156,705</u>	<u>\$ 21,206,615</u>	<u>\$ (2,305,179)</u>	<u>\$ -</u>	<u>\$ 575,058,141</u>

(4) JOINT OPERATIONS

(a) Oklaunion Project

In May 1986, the Public Utilities Board and Central Power & Light (CP&L), now known as AEP Texas Central Company (TCC), executed the Oklaunion Unit No. 1 Ownership Interest Assignment Agreement (Agreement). This Agreement allowed the Public Utilities Board to purchase an undivided 56.54% of TCC's undivided 17.97% ownership interest in the Oklaunion unit (10.16% of the project as a whole). This Agreement committed the Public Utilities Board to become a 10.16% participant in the Oklaunion unit and obligated the Public Utilities Board to contribute its 10.16% share of the Oklaunion unit's operating expenses. As a result of their participation, the Public Utilities Board is entitled to receive 10.16% of the total power generated by the plant.

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(4) JOINT OPERATIONS - Continued

(a) Oklaunion Project - Continued

On February 5, 2004, TCC notified the Public Utilities Board that it had auctioned off and sold its ownership interest in Oklaunion Unit No. 1 to Golden Spread Electric Cooperative, Inc. for \$42,750,000, subject to the exercise by the Public Utilities Board refusal to purchase TCC's ownership interest under the Oklaunion Unit No. 1 Construction, Ownership and Operating Agreement dated May 26, 1985. Both the Public Utilities Board and OMPA exercised their rights of first refusal for the entire TCC interest in May 2004 and each deposited in escrow \$42,750,000, respectively. The Public Utilities Board funded its obligation through the sale of Commercial Paper Notes. In May 2006, the Dallas Court of Appeals issued an opinion upholding City of Brownsville's right to acquire an additional interest in Oklaunion Unit No 1.

Golden Spread Electric Cooperative had challenged the City of Brownsville's right to acquire the interest being sold by American Electric Power – Texas Central Company. Golden Spread Electric asked the Texas Supreme Court to overturn the Dallas Court of Appeals' ruling and allow it to buy Texas Central Company's interest instead of the City of Brownsville.

On December 15, 2006, the Texas Supreme Court declined to review a ruling by the Dallas Court of Appeals in favor of the City of Brownsville and the Public Utilities Board. Subsequently on February 14, 2007, the Public Utilities Board completed its purchase of the additional 54 megawatts (7.8%) of the Oklaunion Power System for \$51 million.

(b) Calpine/Hidalgo Project

On December 15, 1999, the Public Utilities Board purchased an undivided interest from Calpine Energy which entitles the Public Utilities Board to 105 MW of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from Brownsville, Texas. The unit consists of two gas turbines, a heat recovery steam generator and steam turbine.

(5) SHORT-TERM DEBT

(a) Commercial Paper

Commercial paper balances and activity as of and for the year ended September 30, 2013 are as follows:

	Beginning Balance 2012	Additions	Deletions	Ending Balance 2013
Commercial paper	\$ 24,450,000	\$ 4,000,000	\$ (24,450,000)	\$ 4,000,000

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(5) SHORT-TERM DEBT - Continued

(a) Commercial Paper - Continued

Commercial paper balances and activity as of and for the year ended September 30, 2012 are as follows:

	Beginning Balance 2011	Additions	Deletions	Ending Balance 2012
Commercial paper	\$ 20,000,000	\$ 4,450,000	\$ -	\$ 24,450,000

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper notes.

The Public Utilities Board issued \$4,450,000 of commercial paper during 2012 and \$4,000,000 of commercial paper during 2013.

On April 20, 2004, the City Commission of the City of Brownsville, Texas approved and authorized the issuance of short term obligations in an aggregate principal amount not to exceed \$50,000,000. A total of \$44,500,000 was issued in fiscal year 2004. The purpose of the Commercial Paper Program is to pay for additions, improvements, and extensions to the City's combined electric system, waterworks system and sewer system. The Commercial Paper was used to purchase an additional ownership interest in Oklaunion, an electric generating plant. The Reimbursement and Credit Agreement was executed between the City, acting through the Public Utilities Board, and State Street Bank and Trust Company, Credit and Liquidity Provider, for the Commercial Paper. In order to assure timely payment of the principal of and interest on the Commercial Paper Notes, a Letter of Credit was executed by the City and Deutsche Bank Trust, as beneficiary Issuing and Paying Agency. The stated amount of the Letter of Credit is \$50,000,000 (principal plus accrued interest cannot exceed \$50,000,000). Unless extended or terminated earlier upon the occurrence of certain events, the expiration date of the Letter of Credit is July 1, 2011. On March 15, 2011, the letter of credit expiration date was extended through June 6, 2014. Subsequent to September 30, 2013 year-end the City of Brownsville entered into a new Reimbursement Agreement that increased the aggregate principal amount of the Commercial Paper Program to an amount not to exceed \$100,000,000. (See subsequent event note disclosure in Note 14).

(6) LONG-TERM DEBT

(a) Revenue Bonds

The Public Utilities Board had interest rate swaps in place to fix rates on the variable rate demand bonds (VRDB). With respect to the \$100,000,000 utilities system subordinate lien revenue and refunding bonds, Series 2001, a rate swap was in place to fix the rate at 2.712%. This swap expired in February 2004 and the Public Utilities Board elected to change "modes" for these VRDB's to "Flex Mode." This allowed the Public Utilities Board to select a future date to rollover the bonds. These bonds were defeased through a current refunding effective August 2005.

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(6) LONG-TERM DEBT – Continued

(a) Revenue Bonds – Continued

The \$76,400,000 Utilities System Subordinate Lien Revenue and Refunding Variable Rate Bonds, Series 2002, had an outstanding balance of \$52,710,000. The City Commission of the City of Brownsville, Texas authorized the execution of a Rate Cap Agreement effective September 1, 2006 thru September 1, 2011 to serve as insurance against increasing short term rates. The Public Utilities Board executed an agreement with an eligible provider for a notional amount of \$41,880,000 with an interest rate cap of 4.50%. The notional amount of the original swap decreased to \$10,830,000 effective September 1, 2006 and continued to provide a synthetic fixed rate of 2.576%. These bonds were defeased through a current refunding effective May 2008.

Revenue bond balances and activity as of and for the year ended September 30, 2013 are as follows:

	<u>Beginning Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 2013</u>	<u>Amounts due within one year</u>
Public Utilities Board:					
\$163,725,000 utilities system revenue improvement and refunding bonds, Series 2005A; due in annual installments ranging from \$880,000 to \$16,600,000 through 2031 with interest rates ranging from 3.5% to 5.0%	\$ 161,215,000	\$ -	\$ (110,570,000)	\$ 50,645,000	\$ 690,000
\$56,855,000 utilities system revenue improvement refunding bonds, Series 2005B; due in annual installments ranging from \$3,515,000 to \$8,190,000 through 2019 with interest rates ranging from 4.646% to 5.304%	42,105,000	-	(4,125,000)	37,980,000	4,255,000
\$601,000 utilities system junior lien revenue bonds series 2007; due in annual installments ranging from \$29,000 to \$46,000 through 2026 with interest rates ranging from 3.24% to 5.74%	472,000	-	(24,000)	448,000	25,000
\$77,805,000 utilities system revenue refunding bonds, series 2008; due in annual installments ranging from \$1,220,000 to \$5,065,000 through 2033 with interest rates ranging from 4.0% to 5.0%	69,595,000	-	(2,555,000)	67,040,000	2,690,000
\$12,305,000 utilities system revenue refunding bonds, series 2011; due in annual installments ranging from \$745,000 to \$1,255,000 through 2019 with interest rates ranging from 2.0% to 4.0%	9,725,000	-	(1,360,000)	8,365,000	1,415,000
\$20,690,000 utilities system revenue refunding bonds, series 2012; due in annual installments ranging from \$565,000 to \$1,210,000 through 2037 with interest rates ranging from 1.5% to 4.0%		20,690,000	(580,000)	20,110,000	565,000
\$840,000 utilities system revenue refunding bonds, series 2012; due in annual installments ranging from \$30,000 to \$60,000 through 2032 with interest rates ranging from .27% to 3.49%		840,000	(30,000)	810,000	30,000
\$118,185,000 utilities system revenue refunding bonds, series 2013A; due in annual installments ranging from \$430,000 to \$11,820,000 through 2031 with interest rates ranging from 2.0% to 5.0%		118,185,000	-	118,185,000	430,000
Total Public Utilities Board	283,114,012	139,715,000	(119,244,000)	303,585,013	10,100,000

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September 30, 2013 and 2012

(6) LONG-TERM DEBT – Continued

(a) Revenue Bonds – Continued

Revenue bond balances and activity as of and for the year ended September 30, 2013 - continued

	<u>Beginning Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 2013</u>	<u>Amounts due within one year</u>
Southmost Regional Water Authority:					
\$30,975,000 revenue bonds, series 2002; due in remaining annual installments ranging from \$1,950,000 to \$1,953,000 through 2032 bearing interest at 4.896%	14,990,000	-	(14,990,000)	-	-
\$9,950,000 water supply contract revenue refunding bonds, series 2006; due in remaining annual installments ranging from \$10,000 to \$1,845,000 through 2032 with interest rate ranging from 3.7% to 5.50%	9,850,000	-	(20,000)	9,830,000	20,000
\$9,295,000 Revenue Bonds, Series 2009A; due in remaining annual installments ranging from \$305,000 to \$310,000 through 2039 with interest rate at 0.0%	8,365,000	-	(310,000)	8,055,000	310,000
\$3,795,000 Revenue Bonds, Series 2009B; due in remaining annual installments ranging from \$125,000 to \$270,000 through 2029 with interest rate ranging from 0.10% to 4.25%	3,400,000	-	(145,000)	3,255,000	150,000
\$13,530,000 water supply contract revenue refunding bonds, series 2012 due in remaining annual installments ranging from \$700,000 to \$1,285,000 through 2027 with interest rate ranging from 3.0% to 5.0%	-	13,530,000	(700,000)	12,830,000	730,000
Total Public Utilities Board and Southmost Regional Water Authority	319,717,000	153,245,000	(135,409,000)	337,553,000	11,310,000
Plus:					
Unamortized Premium	9,690,196	18,841,690	(1,589,762)	26,942,124	-
Less:					
Unamortized original issuance discount	(1,858,032)	(938,821)	787,346	(2,009,507)	-
Unamortized deferred refunding loss	(6,517,607)	(15,951,650)	4,744,425	(17,724,832)	-
Total long-term debt	<u>\$ 321,031,557</u>	<u>\$ 155,196,219</u>	<u>\$ (131,466,991)</u>	<u>\$ 344,760,785</u>	<u>\$ 11,310,000</u>

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(6) LONG-TERM DEBT – Continued

(a) Revenue Bonds – Continued

Revenue bond balances and activity as of and for the year ended September 30, 2012 are as follows:

	<u>Beginning Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 2012</u>	<u>Amounts due within one year</u>
Public Utilities Board:					
\$163,725,000 utilities system revenue improvement and refunding bonds, Series 2005A; due in annual installments ranging from \$880,000 to \$16,600,000 through 2031 with interest rates ranging from 3.5% to 5.0%	\$ 161,700,000	\$ -	\$ (485,000)	\$ 161,215,000	\$ 585,000
\$56,855,000 utilities system revenue improvement refunding bonds, Series 2005B; due in annual installments ranging from \$3,515,000 to \$8,190,000 through 2019 with interest rates ranging from 4.646% to 5.304%	46,110,000	-	(4,005,000)	42,105,000	4,125,000
\$601,000 utilities system junior lien revenue bonds series 2007; due in annual installments ranging from \$29,000 to \$46,000 through 2026 with interest rates ranging from 3.24% to 5.74%	494,000	-	(22,000)	472,000	24,000
\$77,805,000 utilities system revenue refunding bonds, series 2008; due in annual installments ranging from \$1,220,000 to \$5,065,000 through 2033 with interest rates ranging from 4.0% to 5.0%	72,035,000	-	(2,440,000)	69,595,000	2,555,000
\$12,305,000 utilities system revenue refunding bonds, series 2011; due in annual installments ranging from \$745,000 to \$1,255,000 through 2019 with interest rates ranging from 2.0% to 4.0%	<u>11,050,000</u>	<u>-</u>	<u>(1,325,000)</u>	<u>9,725,000</u>	<u>1,360,000</u>
Total Public Utilities Board	291,389,000	-	(8,277,000)	283,112,000	8,649,000
Southmost Regional Water Authority:					
\$30,975,000 revenue bonds, series 2002; due in remaining annual installments ranging from \$1,950,000 to \$1,953,000 through 2032 bearing interest at 4.896%	15,720,000	-	(730,000)	14,990,000	755,000
\$9,950,000 water supply contract revenue refunding bonds, series 2006; due in remaining annual installments ranging from \$10,000 to \$1,845,000 through 2032 with interest rate ranging from 3.7% to 5.50%	9,870,000	-	(20,000)	9,850,000	20,000
\$9,295,000 Revenue Bonds, Series 2009A; due in remaining annual installments ranging from \$305,000 to \$310,000 through 2039 with interest rate at 0.0%	8,675,000	-	(310,000)	8,365,000	310,000
\$3,795,000 Revenue Bonds, Series 2009B; due in remaining annual installments ranging from \$125,000 to \$270,000 through 2029 with interest rate ranging from 0.10% to 4.25%	<u>3,540,000</u>	<u>-</u>	<u>(140,000)</u>	<u>3,400,000</u>	<u>145,000</u>

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September 30, 2013 and 2012

(6) LONG-TERM DEBT – Continued

(a) Revenue Bonds – Continued

Revenue bond balances and activity as of and for the year ended September 30, 2012 – continued

	<u>Beginning Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 2012</u>	<u>Amounts due within one year</u>
Total Public Utilities Board and Southmost Regional Water Authority	329,194,000	-	(9,477,000)	319,717,000	9,879,000
Plus:					
Unamortized Premium	10,204,289	-	(514,093)	9,690,196	-
Less:					
Unamortized original issuance discount	(1,972,445)	-	114,413	(1,858,032)	-
Unamortized deferred refunding loss	(7,648,750)	-	1,131,143	(6,517,607)	-
Total long-term debt	<u>\$ 329,777,094</u>	<u>\$ -</u>	<u>\$ (8,745,537)</u>	<u>\$ 321,031,557</u>	<u>\$ 9,879,000</u>

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending September 30:			
2014	\$ 11,310,000	\$ 15,250,280	\$ 26,560,280
2015	13,306,000	14,776,022	28,082,022
2016	13,828,000	14,201,902	28,029,902
2017	14,394,000	13,575,690	27,969,690
2018	14,951,000	12,962,424	27,913,424
2019 - 2023	85,303,000	53,612,989	138,915,989
2024 - 2028	102,956,000	31,711,468	134,667,468
2029 - 2033	75,065,000	8,385,081	83,450,081
2034 - 2038	6,135,000	423,038	6,558,038
2039	305,000	-	305,000
	<u>\$ 337,553,000</u>	<u>\$ 164,898,894</u>	<u>\$ 502,451,894</u>

The Public Utilities Board is required by various debt agreements to comply with various financial statements and other covenants including maintaining required debt service coverage ratios. No non-compliance with covenants was noted which constitutes an “event of default” under these agreements.

On December 7, 2009, the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the TWDB Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The Series 2009A bonds were issued at 0.0% interest with annual installments

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(6) LONG-TERM DEBT – Continued

(a) Revenue Bonds – Continued

ranging from \$305,000 to \$310,000 through maturity in 2039. The Series 2009B bonds bear interest at a range from 0.10% to 4.25% with annual installments ranging from \$125,000 to \$270,000 through maturity in 2029. Funds are held by the TWDB in an escrow account with Wells Fargo Bank and released through installments as project expenses are incurred. A total of \$1,078,695 and \$395,000 was released from TWDB to the Authority during FY 2013 and FY 2012, respectively.

On February 28, 2011, the Public Utilities Board issued \$12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund \$6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and \$5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On October 1, 2012, The Public Utilities Board issued \$840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from the sale of the Obligations were used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper notes.

On September 26, 2012, the Authority issued \$13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus the bond premium were used to defease \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On May 1, 2013, the Public Utilities Board issued \$118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bond proceeds plus a bond premium of \$16,723,650 were used to defease \$109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds which are callable on September 1, 2015 and funded \$11,818,500 of Public Utilities Board Senior Lien Reserve Fund.

(b) Current Refunding

The Public Utilities Board issued \$20,690,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2012. The proceeds of the refunding bonds plus \$5,275,000 in issuer contributions were used for a current refunding of \$24,450,000 of Commercial Paper Notes. As a result, the refunded commercial paper notes are considered to be defeased and the liability has been removed from long-term debt. This current refunding was undertaken to convert the Commercial Paper Notes to long-term and did not result in an economic gain or loss.

(c) Advance Refunding

The Public Utilities Board issued \$118,185,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2013. The refunding bonds were issued to provide resources to purchase securities on a competitive basis that were placed with an Escrow Agent for the purpose of

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(6) LONG-TERM DEBT – Continued

(c) *Advance Refunding – Continued*

meeting debt service payments through the September 1, 2015 call date on \$109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds including years 2016 through 2031. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by \$13,261,302. This amount together with \$2,690,348 of unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2031. The Public Utilities Board completed the advance refunding to reduce its total debt service payments over the next 18 years by \$11,225,576 and to obtain an economic gain (difference between the present values of old and new debt service payments) of \$8,446,480.

The Authority issued \$13,530,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2012 for an advance refunding of \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by \$48,131. This amount together with \$423,630 of unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2027. The Authority completed the advance refunding to reduce its total debt service payments over the next 14 years by \$2,610,475 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,139,931.

(d) *Prior Year Defeasance of Debt*

In prior years, the Public Utilities Board has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or it matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from long-term debt. As of September 30, 2013 and 2012, the amount of defeased debt outstanding but removed from long-term debt amounted to \$160,835,000 and \$72,290,000, respectively.

(e) *Remarketing Memorandum*

In connection with the Public Utilities Board restructuring of its revenue financing system, the Public Utilities Board approved a Remarketing Memorandum which became effective upon the issuance of the 2005 Bonds. The Remarketing Memorandum modified certain existing covenants of the Utilities System Subordinate Lien Revenue and Refunding Bonds, Series 2002A and 2002B to conform to the terms on which the Series 2005 Bonds were issued.

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(7) RISK MANAGEMENT

The Public Utilities Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the entity carries commercial insurance. The Public Utilities Board has established a limited risk management program for employee health and workers' compensation for which the Public Utilities Board retained risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically. The estimate of the claims liability also includes amounts for claim incremental adjustment expenses. Estimated recoveries from third parties are another component of claims expense. Excess coverage insurance policies cover individual claims in excess of \$125,000 and \$350,000 for health and workers' compensation, respectively. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(a) Workers' Compensation Program

The Public Utilities Board has a workers' compensation self-insurance plan for the purpose of providing medical and indemnity payments as required by law for on-the-job related injuries. The plan is administered by a service agent. The Public Utilities Board has a stop loss insurance contract with an insurance carrier covering claims in excess of \$350,000 for any one accident or occurrence. The aggregate annual limit under this policy is \$700,000; however, the maximum annual benefit under the insurance is \$1,000,000. Management feels that the contributions made during the year for worker's compensation will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

(b) Health Insurance Program

The Public Utilities Board has a group health self-insurance plan for the purpose of providing health insurance for the employees and their dependents. The plan is administered by a service agreement. The Public Utilities Board has a stop loss insurance contract with an insurance carrier covering claims in excess of \$125,000 for any one claim filed.

The following is a summary of changes in claims liability for the Workers' Compensation and Health Insurance programs, which is included in accounts payable and accrued liabilities payable from restricted assets, for the years ended September 30, 2013 and 2012:

	Beginning Balance 2012	Claims and Adjustments	Claims Payments	Ending Balance 2013	Amounts Due Within One Year
Workers' Compensation	\$ 98,712	\$ 216,774	\$ (135,475)	\$ 180,011	\$ 83,754
Health Insurance	\$ 124,146	\$ 3,654,796	\$ (3,682,769)	\$ 96,173	\$ 96,173

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September 30, 2013 and 2012

(7) RISK MANAGEMENT – Continued

(b) Health Insurance Program – Continued

	Beginning Balance 2011	Claims and Adjustments	Claims Payments	Ending Balance 2012	Amounts Due Within One Year
Workers' Compensation	\$ 66,921	\$ 154,580	\$ (122,789)	\$ 98,712	\$ 26,259
Health Insurance	\$ 129,958	\$ 3,132,871	\$ (3,138,683)	\$ 124,146	\$ 124,146

(8) TEXAS MUNICIPAL RETIREMENT SYSTEM

(a) Plan Description

The Public Utilities Board provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employees' contributions to the plan, with interest, and the Public Utilities Board financed monetary credits, with interest. At the date the plan began, the Public Utilities Board granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Public Utilities Board can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the Public Utilities Board matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

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Notes to Financial Statements

September 30, 2013 and 2012

(8) TEXAS MUNICIPAL RETIREMENT SYSTEM - Continued

(a) Plan Description - Continued

Employee deposit rate:	7%
Matching ratio (PUB to employee):	1.5 to 1
Years required for vesting:	5 years
Members can retire at certain ages, based on the years of service with the Public Utilities Board. The Service Retirement Eligibilities for the Public Utilities Board are:	5 years/age 60 20 years/any age
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

(b) Contributions

Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the Public Utilities

Board. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Public Utilities Board contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Public Utilities Board make contributions monthly. Since the Public Utilities Board needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2012 valuation is effective for rates beginning January 2014).

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

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Notes to Financial Statements

September 30, 2013 and 2012

(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(b) Contributions – Continued

General System-wide Actuarial Assumptions

Actuarial cost method:	Projected Unit credit
Amortization method:	Level percent of payroll
Remaining amortization period:	24.8 years – closed period
Amortization period for new gains/losses	30 years
Asset valuation method:	10-year smoothed market
Investment rate of return:	7.0%
Projected salary increases:	Varies by age and service
Includes inflation at:	3.0%
Cost-of-living adjustments:	2.1% (70% of CPI)

Three year trend information follows:

Fiscal year ending:	Annual pension cost (APC)	Annual Contributions Made	Percentage of APC contributed	Net pension obligation
September 30, 2011	\$ 3,828,971	\$ 3,828,971	100%	—
September 30, 2012	\$ 4,021,605	\$ 4,021,605	100%	—
September 30, 2013	\$ 3,268,022	\$ 3,268,022	100%	—

(c) Actuarial Assumptions

The Public Utilities Board has the benefit plan administered by TMRS. The Public Utilities Board has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2012 valuations are contained in the 2012 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

(d) Funded Status and Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS participant rates and funding ratios, please see the December 31, 2012 TMRS Comprehensive Annual Financial Report (CAFR).

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Notes to Financial Statements

September 30, 2013 and 2012

(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(d) Funded Status and Funding Progress - Continued

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2012	\$ 99,028,313	\$ 115,077,743	86.1%	\$ 16,049,430	\$ 22,276,925	72.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

(9) OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the Public Utilities Board provides post-retirement health care benefits and supplemental death benefits to its employees.

POST-RETIREMENT HEALTH CARE BENEFITS

(a) Plan Description

The Public Utilities Board provides post-retirement health care benefits for employees retiring and receiving annuities from the Texas Municipal Retirement System, through a single-employer plan, who are (1) at least age 60 and have completed 10 consecutive years of active service with the Public Utilities Board immediately prior to retirement, (2) at least age 55 and have completed 25 consecutive years of active service with the Public Utilities Board immediately prior to retirement, or (3) at any age having completed 30 consecutive years of active service with the Public Utilities Board immediately prior to retirement. Prior to age 65, the Public Utilities Board will pay 100% of the cost of the Group Health Insurance Program for the retirees. Spouses and dependents are also eligible for coverage, but the retiree

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September 30, 2013 and 2012

(9) OTHER POST-EMPLOYMENT BENEFITS - Continued

POST-RETIREMENT HEALTH CARE BENEFITS - Continued

(a) Plan Description - Continued

must pay the premiums. No coverage is available after the retiree reaches age 65, including coverage for spouses and dependents. The above eligibility and coverage requirements do not apply to retirees that retired under Retiree Package I (1999) and Retiree Package II (2005). The Retiree Package I plan results from a special offer made in fiscal year 1999 to all employees with 25 years or more of credited service or eligible for retirement under TMRS guidelines who elected to voluntarily resign or retire during the offer period. The plan provides coverage for the employees and the employees' dependent (spouse) under the Public Utilities Board's group medical plan until such time as the employee becomes 65 years of age, dies, or elects to receive coverage from another source. Under Retiree Package I, 34 retirees met these eligibility requirements. The Retiree Package II plan provides post-retirement benefits to all employees who retire from the Public Utilities Board after attaining 10 years of service and 60 years of age, 25 years of service and 55 years of age or 30 years of service regardless of age. Under the Retiree Package II plan, retirees may pay to provide spousal and dependent coverage.

Under Retiree Package II, 24 retirees met these eligibility requirements. The Public Utilities Board provides 100% of the cost of retirees to participate in this plan. Expenses for post-retirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. Expenses related to provision of these post-employment benefits cannot be reasonably estimated.

(b) Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective.

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September 30, 2013 and 2012

(9) OTHER POST-EMPLOYMENT BENEFITS- Continued

POST-RETIREMENT HEALTH CARE BENEFITS- Continued

(b) Actuarial Methods and Assumptions - Continued

The actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

- a) The actuarial cost method is the projected unit credit method.
- b) As of this valuation date, there are no assets, hence no need for an actuarial value of assets.
- c) See below for a disclosure of the significant actuarial assumptions.
- d) The amortization method is level percent of payroll. The amortization period is 30 years. The period is open.

Actuarial Assumptions

• Valuation date	September 30, 2013	
• Discount rate	3.5%	
• Payroll growth	2.1%	
• Inflation rate	2.5%	
• Claims costs	For self-insured plans, derived from actual plan experience, trended to the valuation date and adjusted for the risk characteristics of the covered group	
• Expenses	Administration	
	Retirees	\$22.85 pmpm
	Spouses	\$34.27 pmpm
• Stop Loss Premiums	Aggregate	
	Retirees	\$7.54 pmpm
	Spouses	\$11.30 pmpm
	Specific	
	Retirees	\$23.32 pmpm
	Spouses	\$34.98 pmpm
• Administrative expense trend	2.5%	
• Stop Loss Premium Trend	Medical trend plus 1%	
• Mortality	RP-2000 Combined Health tables, male and female, set back one year for mortality improvement	

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Notes to Financial Statements

September 30, 2013 and 2012

(9) OTHER POST-EMPLOYMENT BENEFITS- Continued

POST-RETIREMENT HEALTH CARE BENEFITS- Continued

(b) Actuarial Methods and Assumptions –Continued

- Employee turnover 59.5% of the 2003 SoA Pension Turnover Scale. Average rate is 4.8%.
- Employee retirements From the TMRS annual report for entry age 30
- Employee disablement From the TMRS annual report
- Participation by future retirees 100% of eligible retirees
- Dependent status: current retirees Current status is assumed to persist in all future years, except that dependent children are not assumed after the later of age 63 or three years after the valuation date.
- Dependent status: future retirees

Spouse covered:	50%
Average children per retiree:	0.1
- Spouse age for future retirees Husbands are assumed to be three years older than wives.
- Medical trend

For 2013 through 2015, L&E best estimate assumptions, developed by observation and extrapolation of plan experience. Thereafter, rates developed using the baseline projection of the SoA Long-Run Medical Cost Trend Model and the following model input variables:

Rate of Inflation:	2.5%
Rate of Growth in Real Income/GDP per capita:	1.7%
Income Multiplier for Health Spending:	1.4
Extra Trend due to Technology and other factors:	1.1%
Health Share of GDP Resistance Point:	25.0%
Year for Limiting Cost Growth to GDP Growth:	2075

The following is the three year trend information under a plan which is not prefunded:

Plan Year Ended	Discount Rate	Annual Required Contribution (ARC)	ARC Adjustment	Interest	Annual OPEB Cost	Annual Contributions	Percentage of OPEB Cost Contributed	Increase (Decrease) in Net OPEB	Net OPEB Obligation
09/30/11	4.0%	\$ 879,264	\$ (163,682)	\$ 164,749	\$ 880,331	\$ 298,428	33.90%	\$ 581,903	\$ 4,700,634
09/30/12	3.5%	\$ 1,053,822	\$ (196,211)	\$ 164,522	\$ 1,022,133	\$ 681,217	66.60%	\$ 340,916	\$ 5,041,550
09/30/13	3.5%	\$ 1,053,822	\$ (210,442)	\$ 176,454	\$ 1,019,834	\$ 213,321	20.92%	\$ 806,513	\$ 5,848,063

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Notes to Financial Statements

September 30, 2013 and 2012

(9) OTHER POST-EMPLOYMENT BENEFITS- Continued

POST-RETIREMENT HEALTH CARE BENEFITS- Continued

(c) *Funded Status and Funding Progress*

As of September 30, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$10.0 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$10.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$20.89 million, and the ratio of the UAAL to the covered payroll was 47.9 percent.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Management feels that the contributions made during the year to other post-employment benefits will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such. All assumptions for the postretirement benefits valuation as of September 30, 2013 are contained in the Public Utilities Board Actuarial Valuation Report, a copy of which may be obtained by writing to P.O. Box 3270, Brownsville, Texas 78523-3270.

SUPPLEMENTAL DEATH BENEFIT PLAN

(a) *Plan Description*

The Public Utilities Board also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The Public Utilities Board elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Public Utilities Board may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employees' annual salary (calculated based on the employees actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

(b) *Contributions*

The Public Utilities Board contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers.

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(9) OTHER POST-EMPLOYMENT BENEFITS- Continued
SUPPLEMENTAL DEATH BENEFIT PLAN-Continued

(b) Contributions - Continued

Schedule of Contribution Rates

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.05%	0.05%	100.0%
2011	0.05%	0.05%	100.0%
2012	0.05%	0.05%	100.0%

(c) Actuarial Cost Method and Assumptions

Actuarial information under this plan is as follows:

Valuation date	12/31/2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Amortization period	25 years – open period
Asset valuation method	Fund value
Assumptions	
Investment return	4.25%
Projected salary increases	None
Inflation	3.0%
Cost-of-living adjustments	None

Three year trend information follows:

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	\$ 43,157	100%	-
December 31, 2011	\$ 49,868	100%	-
December 31, 2012	\$ 41,504	100%	-

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Notes to Financial Statements

September 30, 2013 and 2012

(9) OTHER POST-EMPLOYMENT BENEFITS- Continued

SUPPLEMENTAL DEATH BENEFIT PLAN - Continued

(c) Actuarial Cost Method and Assumptions - Continued

The Public Utilities Board has the benefit plan administered by TMRS. The Public Utilities Board has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2012 valuations are contained in the 2012 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

(10) RELATED PARTY TRANSACTION

The Public Utilities Board supplies electric, water, and wastewater services to the City without charge; this is in compliance with the provisions of the City charter. These services are accounted for in accordance with the Public Utilities Board's municipal rate schedules. Utilities service provided to the City for the years ended September 30, 2013 and 2012 were \$4,274,184 and \$4,228,001, respectively.

The Public Utilities Board also bills and collects the City's fees for garbage collection services, garbage tax, EPA fees, and maintenance services, and receives a 3% administrative fee for these services except garbage tax. The Public Utilities Board charged \$718,914 and \$700,637 to the City for these collection services in 2013 and 2012, respectively.

(11) TRANSFERS TO THE CITY

The issuance of the 2005A and 2005B refunding bonds modified certain existing covenants which included the calculation of the transfers to the City. Beginning fiscal year 2006 the transfers to the City are being made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of gross revenues for a fiscal year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Public Utilities Board during such fiscal year quarter as well as funding requirements for the Southmost Regional Water Authority; and (2) the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Public Utilities Board for utility services. Prior to fiscal year 2006 Article VI of the Charter provided for the transfer to the City's general fund by the Public Utilities Board from "Surplus Funds" available at the close of each fiscal year (after retaining in the Plant Fund an amount deemed by the Public Utilities Board to be sufficient to pay system operation and maintenance expenses for the next 60 days), to the extent available, the greater of \$400,000 or 50% of such surplus funds. Surplus funds, as defined in the Charter, are amounts remaining in the Plant Fund at the close of each fiscal year after all Charter requirements and after all payments have been fully and timely made into funds created by ordinances authorizing outstanding bonds secured by a pledge of the system's net revenues.

Required payments to the City for the years ended September 30, 2013 and 2012 totaled \$7,188,692 and \$7,738,354, respectively, of which \$1,998,710 and \$2,190,168, respectively, was payable at September 30, 2013 and 2012.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(12) COMMITMENTS AND CONTINGENCIES

The Public Utilities Board is currently involved in various claims and litigation. It is the opinion of management and counsel that potential claims against the Public Utilities Board not covered by insurance resulting from litigation would not materially affect the financial position or operations of the Public Utilities Board.

At September 30, 2013, the Public Utilities Board had committed approximately \$60,239,151 for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds.

(13) PENDING GASBs

As of September 30, 2013, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Public Utilities Board. The statements which might impact the Public Utilities Board are as follows:

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, becomes effective for the Public Utilities Board beginning with its year ending September 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial reporting standards, as deferred outflows of resources and deferred inflows of resources. In addition, Concepts No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62*, becomes effective for the Public Utilities Board beginning with its year ending September 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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Notes to Financial Statements

September 30, 2013 and 2012

(13) PENDING GASBs - Continued

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

This Statement also amends Statements 62 by modifying the specific guidance on accounting (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or groups of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges or Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Statement No. 67, *Financial Reporting for Pension Plan and amendment of GASB Statement No. 25*, becomes effective for the Public Utilities Board beginning with its year ending September 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions.

The Public Utilities Board's management has not yet determined the effect these Statements will have on the Public Utilities Board's financial statements.

(14) SUBSEQUENT EVENTS

On January 23, 2014 the Public Utilities Board entered into a Power Purchase Agreement ("PPA") with Sendero Wind Energy, LLC ("SWE") which entitles the Public Utilities Board to purchase 78.2 MW of renewable electric energy. The PPA shall remain in full force and effect until the twenty-fifth (25th) anniversary of the commercial operation date. SWE will develop, construct, own, operate, and maintain the facility, which shall consist of forty-six (46) General Electric 1.7 MW wind turbines and associated equipment having a designed output of approximately 78.20 MW. SWE shall achieve, at its sole cost and expense, commercial operation of the facility by May 31, 2015. Beginning on the commercial operation date, SWE shall deliver to the Public Utilities Board the full energy output of the facility.

On September 17, 2013, the City Commission of the City of Brownsville adopted an Ordinance No. 2013-1582 authorizing the issuance of the City of Brownsville, Texas Utilities System Commercial Paper Notes,

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to Financial Statements

September 30, 2013 and 2012

(14) SUBSEQUENT EVENTS - Continued

Series A in a maximum aggregate principal amount of \$100,000,000 outstanding at any time. Subsequently on November 1, 2013 the City of Brownsville and the Bank of Montreal entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A. The City of Brownsville requested that the Bank issue its Letter of Credit to secure certain payments to be made with respect to the Commercial Paper Notes in the amount of \$111,095,891, of which \$100,000,000 will be available to pay principal of the Commercial Paper Notes upon maturity thereof, and of which \$11,095,891 will be available to pay accrued interest on the Commercial paper Notes at maturity.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Texas Municipal Retirement System

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/2010	84,694,260	103,428,616	18,734,356	81.9%	20,413,660	91.8%
12/31/2011	91,922,770	109,043,064	17,120,294	84.3%	22,336,008	76.6%
12/31/2012	99,028,313	115,077,743	16,049,430	86.1%	22,276,925	72.0%

Unaudited - see accompanying independent auditors' report.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Post-Retirement Health Care Benefits

Schedule of Funding Progress

Actuarial valuation date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2007	\$ -	\$ 20,757,464	\$ 20,757,464	0.0%	\$ 18,710,045	110.9%
10/1/2009	\$ -	\$ 9,620,225	\$ 9,620,225	0.0%	\$ 19,223,064	50.0%
9/30/2012	\$ -	\$ 10,003,425	\$ 10,003,425	0.0%	\$ 20,888,177	47.9%

Unaudited - see accompanying independent auditors' report.

The last actuarial valuation was as of 9/30/2012. The next actuarial valuation will be made as of 9/30/2014.

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Statistical Section

This part of the Public Utilities Board's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosure, and required supplementary information says about the Public Utilities Board's overall financial health.

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These schedules contain trend information to help the reader understand how the Public Utilities Board's financial performance and well being has changed over time.	
Revenue Capacity	64-70
These schedules contain information to help the reader assess the Public Utilities Board's local revenue source.	
Debt Capacity	71-74
These schedules present information to help the reader assess the Public Utilities Board's debt burden and its ability to issue additional debt in the future.	
Demographic and Economic Information	75-80
This schedule offers demographic and economic indicators to help the reader understand the environment in which the Public Utilities Board's financial activities take place.	
Operating Information	81-98
These schedules contain service and infrastructure data to help the reader understand how the information in the Public Utilities Board's financial report relates to the services Public Utilities Board provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules was obtained from the basic financial statements for the relevant years. Public Utilities Board implemented GASB Statement 34 in 2002.

Fiscal Year 2006 was the first time the Public Utilities Board prepared a Statistical Section; as such the Public Utilities Board is not required to report all ten years of information retroactively. The Public Utilities Board reported ten years of information whenever the data was readily available.

Financial Trends

FINANCIAL TRENDS
BALANCE SHEETS
September 30 - Audited
(Dollars In Thousands)

	Assets	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Current assets:											
	Cash and cash equivalents	\$11,090	\$11,374	\$25,891	\$11,650	\$10,691	\$8,093	\$8,460	\$6,818	\$8,976	\$12,647
	Investments	43,527	39,453	22,829	34,725	27,386	21,402	14,940	13,441	8,984	13,131
Receivables:											
	Fees and services, net of allowance for uncollectible accounts	35,372	34,849	37,474	33,595	24,084	25,443	22,205	26,532	28,591	19,835
	Intergovernmental	5,792	986	2,143	4,507	1,294	2,174	1,584	844	583	1,127
	Accrued interest receivable	146	129	146	142	158	394	573	420	150	55
	Deferred debit-fuel cost under recovery	-	-	-	-	-	-	-	-	297	-
	Inventories	9,677	11,499	13,947	13,446	12,621	9,295	9,255	5,633	4,450	4,146
	Prepays	939	1,317	1,678	655	904	464	555	558	130	1,822
	Total unrestricted current assets	<u>106,543</u>	<u>99,608</u>	<u>104,109</u>	<u>98,719</u>	<u>77,138</u>	<u>67,265</u>	<u>57,571</u>	<u>54,247</u>	<u>52,161</u>	<u>52,762</u>
Current restricted assets:											
	Cash and cash equivalents	7,232	3,579	18,783	3,122	1,884	398	555	1,084	4,176	8,196
	Investments	99,224	113,120	88,921	91,747	88,401	98,067	93,496	138,030	117,346	82,669
	Total restricted current assets	<u>106,456</u>	<u>116,700</u>	<u>107,704</u>	<u>94,869</u>	<u>90,285</u>	<u>98,465</u>	<u>94,051</u>	<u>139,114</u>	<u>121,523</u>	<u>90,865</u>
	Total current assets	<u>212,999</u>	<u>216,308</u>	<u>211,812</u>	<u>193,588</u>	<u>167,423</u>	<u>165,730</u>	<u>151,622</u>	<u>193,361</u>	<u>173,684</u>	<u>143,627</u>
Non-current assets:											
	Capital assets, net of accumulated depreciation	608,282	575,058	556,157	548,480	529,982	516,768	497,607	444,649	452,635	441,957
	Bond issue costs and other assets	4,661	4,728	5,082	5,389	5,535	5,983	5,013	4,501	4,729	4,894
	Total non-current assets	<u>612,943</u>	<u>579,786</u>	<u>561,239</u>	<u>553,869</u>	<u>535,517</u>	<u>522,752</u>	<u>502,620</u>	<u>449,150</u>	<u>457,364</u>	<u>446,852</u>
	Total assets	<u>\$825,942</u>	<u>\$796,094</u>	<u>\$773,051</u>	<u>\$747,457</u>	<u>\$702,940</u>	<u>\$688,481</u>	<u>\$654,242</u>	<u>\$642,511</u>	<u>\$631,047</u>	<u>\$590,479</u>

Continued

FINANCIAL TRENDS
BALANCE SHEETS - Continued
September 30 - Audited
(Dollars In Thousands)

Liabilities and Net Position	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Current liabilities:										
Accounts payable	\$23,942	\$15,445	\$14,151	\$16,322	\$15,099	\$16,241	\$18,210	\$16,384	\$18,581	\$13,444
Accrued vacation and sick leave	5,590	5,098	5,107	5,089	4,988	4,582	4,490	4,294	3,995	4,356
Due to primary government	1,999	2,190	2,262	1,861	1,964	1,333	1,777	2,351	7,306	3,110
Deferred credit – fuel cost over recovery	4,567	7,141	8,132	5,606	6,309	3,821	1,866	3,379	-	596
	84	26	42	48	72	55	378	166	76	51
Total unrestricted current liabilities	36,181	29,900	29,694	28,925	28,432	26,031	26,721	26,575	29,958	21,558
Current liabilities payable from restricted assets:										
Accounts payable and accrued liabilities	345	282	224	223	184	190	184	202	182	1,885
Accrued interest	1,271	1,586	1,511	1,434	1,370	2,225	1,176	1,192	1,153	1,301
Customer deposits	3,438	3,305	3,198	3,001	2,883	2,774	2,628	2,531	2,262	2,158
Current portion of revenue bonds payable	11,310	9,879	9,477	9,016	8,225	7,449	8,553	8,680	8,360	10,210
Current portion of capital lease obligation	-	-	-	-	-	-	-	-	84	86
Commercial paper	4,000	24,450	20,000	15,000	7,500	-	40,000	42,750	42,750	44,500
Total current liabilities payable from restricted assets	20,365	39,502	34,410	28,674	20,162	12,639	52,542	55,355	54,791	60,139
Total current liabilities	56,546	69,403	64,104	57,599	48,594	38,669	79,263	81,931	84,749	81,696
Non-current liabilities:										
Revenue bonds payable net of unamortized premium and deferred refunding	333,451	311,153	320,300	328,428	323,570	330,343	294,509	300,290	307,344	295,777
Capital lease obligation	-	-	-	-	-	-	-	-	-	76
Other post-employment benefits	5,848	5,042	4,701	4,119	3,455	1,727	-	-	-	-
Self insurance worker's compensation claims	96	72	24	49	69	52	363	160	73	49
Total non-current liabilities	339,395	316,267	325,025	332,596	327,094	332,123	294,873	300,449	307,417	295,902
Total liabilities	395,941	385,669	389,130	390,196	375,687	370,792	374,136	382,380	392,167	377,598
Net position:										
Net investment in capital assets	271,662	244,561	221,978	211,960	194,919	183,307	157,978	142,088	142,051	138,491
Restricted	101,291	111,401	102,698	90,119	85,620	89,398	88,223	86,405	74,414	43,458
Unrestricted	57,048	54,463	59,245	55,182	46,713	44,984	33,906	31,637	22,415	30,931
Total net position	430,001	410,425	383,921	357,261	327,253	317,689	280,106	260,131	238,880	212,881
Total liabilities and net position	\$825,942	\$796,094	\$773,051	\$747,457	\$702,940	\$688,481	\$654,242	\$642,511	\$631,047	\$590,479

FINANCIAL TRENDS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years 2013 - 2004
(Dollars In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:										
Sales and services charges	\$170,446	\$169,799	\$172,361	\$158,868	\$168,185	\$213,610	\$163,497	\$190,566	\$157,172	\$132,783
Less utilities service to the City of Brownsville, Texas	(4,274)	(4,228)	(4,278)	(4,069)	(4,228)	(4,605)	(4,118)	(4,695)	(3,711)	(3,138)
Total operating revenues	<u>166,172</u>	<u>165,571</u>	<u>168,083</u>	<u>154,799</u>	<u>163,957</u>	<u>209,005</u>	<u>159,379</u>	<u>185,871</u>	<u>153,461</u>	<u>129,644</u>
Operating expenses:										
Purchased power and fuel	53,915	48,039	52,503	53,527	58,654	88,279	59,551	71,463	63,037	48,623
Personnel services	30,616	27,962	27,388	26,025	25,136	24,187	22,875	21,297	19,989	19,517
Materials and supplies	7,433	7,276	7,161	6,444	6,537	6,881	5,196	5,102	4,493	4,592
Repairs and maintenance	2,030	2,794	3,235	3,106	1,346	834	1,087	889	878	607
Contractual and other services	19,319	18,972	18,166	19,570	21,065	23,407	16,831	25,876	14,614	16,137
Depreciation	27,366	23,602	28,270	25,555	24,663	23,691	22,771	26,463	19,666	15,838
Total operating expenses	<u>140,678</u>	<u>128,646</u>	<u>136,723</u>	<u>134,227</u>	<u>137,402</u>	<u>167,278</u>	<u>128,310</u>	<u>151,090</u>	<u>122,677</u>	<u>105,315</u>
Operating income	<u>25,494</u>	<u>36,926</u>	<u>31,360</u>	<u>20,572</u>	<u>26,556</u>	<u>41,727</u>	<u>31,069</u>	<u>34,782</u>	<u>30,784</u>	<u>24,330</u>
Nonoperating revenues (expenses):										
Investment and interest income	564	672	629	841	1,812	4,142	6,863	6,476	2,915	1,183
Interest expense	(15,654)	(15,580)	(16,131)	(16,515)	(16,819)	(15,864)	(16,157)	(17,111)	(7,648)	(10,355)
Operating grant revenues	-	-	-	-	-	1,250	-	-	-	-
Loss on disposition of capital assets	(116)	(1,417)	(359)	(140)	(157)	(762)	-	-	-	-
Other	(1,484)	(582)	(2,157)	11,086	523	(1,183)	(1,484)	(2,415)	(1,558)	(2,652)
Payments to City of Brownsville	<u>(7,189)</u>	<u>(7,738)</u>	<u>(7,488)</u>	<u>(7,570)</u>	<u>(6,381)</u>	<u>(7,390)</u>	<u>(6,233)</u>	<u>(6,183)</u>	<u>(7,706)</u>	<u>(3,510)</u>
Net nonoperating revenues (expenses)	<u>(23,878)</u>	<u>(24,645)</u>	<u>(25,507)</u>	<u>(12,298)</u>	<u>(21,023)</u>	<u>(19,806)</u>	<u>(17,012)</u>	<u>(19,233)</u>	<u>(13,996)</u>	<u>(15,334)</u>
Income before capital contributions	1,616	12,280	5,853	8,274	5,533	21,921	14,057	15,549	16,788	8,996
Capital contributions	<u>17,961</u>	<u>14,224</u>	<u>20,807</u>	<u>21,735</u>	<u>4,804</u>	<u>12,752</u>	<u>5,919</u>	<u>5,702</u>	<u>9,212</u>	<u>6,302</u>
Change in net position	19,576	26,504	26,660	30,009	10,337	34,673	19,976	21,250	26,000	15,298
Net position, beginning of year	410,425	383,921	357,261	327,253	317,689	280,106	260,131	238,880	212,881	222,804
Prior Period Adjustment	-	-	-	-	(773)	2,909	-	-	-	(25,222)
Net position, beginning of year as restated	<u>410,425</u>	<u>383,921</u>	<u>357,261</u>	<u>327,253</u>	<u>316,916</u>	<u>283,016</u>	<u>260,131</u>	<u>238,880</u>	<u>212,881</u>	<u>197,583</u>
Net position, end of year	<u>\$430,001</u>	<u>\$410,425</u>	<u>\$383,921</u>	<u>\$357,261</u>	<u>\$327,253</u>	<u>\$317,689</u>	<u>\$280,106</u>	<u>\$260,131</u>	<u>\$238,880</u>	<u>\$212,881</u>

Revenue Capacity

**REVENUE CAPACITY
AVERAGE NUMBER OF SERVICES BILLED BY UTILITY¹
LAST TEN YEARS**

FY	ELECTRIC	% CHANGE	WATER	% CHANGE	WASTEWATER	% CHANGE
2013	46,730	1.37%	47,976	1.06%	47,972	1.09%
2012	46,102	1.32%	47,477	1.76%	47,456	1.83%
2011	45,500	1.19%	46,656	1.51%	46,605	1.79%
2010	44,965	1.57%	45,963	1.82%	45,784	2.11%
2009	44,268	1.19%	45,143	1.06%	44,840	1.42%
2008	43,749	2.07%	44,670	2.19%	44,211	2.98%
2007	42,860	3.01%	43,713	3.16%	42,931	3.38%
2006	41,609	2.97%	42,375	3.36%	41,526	3.59%
2005	40,410	2.84%	40,996	3.73%	40,087	4.03%
2004	39,295	0.60%	39,520	4.51%	38,535	4.76%

¹Municipal customers not included in average number of services billed.

**REVENUE CAPACITY
REVENUES BY UTILITY - LAST TEN YEARS**

	2013	2012	2011	2010	FY 2009
ELECTRIC					
Residential	\$ 51,861,710	\$ 48,562,146	\$ 50,187,194	\$ 47,971,715	\$ 46,515,011
Commercial	59,576,916	54,952,907	55,235,857	55,336,855	55,839,361
Municipal	3,336,413	3,157,165	3,454,302	3,420,281	3,551,221
Wholesale sales	237,173	605,125	3,124,675	5,532,956	6,268,813
Other	8,925,031	16,626,285	15,491,119	7,008,117	14,114,934
<i>Total Electric Operating Revenues</i>	\$ 123,937,243	\$ 123,903,628	\$ 127,493,147	\$ 119,269,924	\$ 126,289,340
WATER					
Inside city	\$ 20,333,223	\$ 20,389,340	\$ 19,901,457	\$ 17,448,496	\$ 18,909,283
Outside city	735,224	699,401	675,821	581,350	419,261
Municipal	617,202	686,274	587,860	464,828	487,526
Other	1,054,328	1,032,247	1,140,972	971,331	771,705
Southmost Regional Water Authority	1,023,081	428,572	367,143	469,462	355,486
<i>Total Water Operating Revenues</i>	\$ 23,763,058	\$ 23,235,834	\$ 22,673,253	\$ 19,935,467	\$ 20,943,261
WASTEWATER					
Residential	\$ 14,135,642	\$ 14,128,726	\$ 13,858,701	\$ 12,002,652	\$ 13,046,933
Commerical	6,734,506	6,713,307	6,565,949	6,171,734	6,384,964
Municipal	320,569	384,562	236,123	184,228	188,825
Outside city	1,050,009	984,754	1,042,823	908,149	933,894
Other	505,472	448,444	490,847	396,032	397,741
<i>Total Wastewater Operating Revenues</i>	\$ 22,746,198	\$ 22,659,793	\$ 22,194,443	\$ 19,662,795	\$ 20,952,357
TOTAL SALES AND SERVICE CHARGES	\$ 170,446,499	\$ 169,799,255	\$ 172,360,843	\$ 158,868,186	\$ 168,184,958

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
ELECTRIC					
Residential	\$ 53,591,810	\$ 48,956,516	\$ 53,471,606	\$ 47,447,901	\$ 38,465,505
Commercial	68,404,294	60,065,750	66,971,038	56,410,792	46,113,654
Municipal	3,953,891	3,479,751	4,015,749	3,183,833	2,704,795
Wholesale sales	19,172,024	7,923,735	20,025,496	9,535,844	9,382,845
Other	28,262,591	4,531,350	5,189,757	3,458,984	3,045,377
<i>Total Electric Operating Revenues</i>	\$ 173,384,610	\$ 124,957,102	\$ 149,673,646	\$ 120,037,353	\$ 99,712,176
WATER					
Inside city	\$ 18,031,651	\$ 16,866,807	\$ 17,873,500	\$ 16,393,897	\$ 14,604,087
Outside city	616,728	532,163	558,041	486,942	492,310
Municipal	464,790	424,542	455,391	341,391	272,144
Other	810,382	1,025,750	1,082,669	912,354	803,441
Southmost Regional Water Authority	325,247	300,892	285,618	256,615	176,019
<i>Total Water Operating Revenues</i>	\$ 20,248,798	\$ 19,150,154	\$ 20,255,219	\$ 18,391,198	\$ 16,348,001
WASTEWATER					
Residential	\$ 12,292,537	\$ 11,408,673	\$ 12,578,015	\$ 11,208,019	\$ 10,090,919
Commercial	6,222,760	6,178,300	6,236,655	5,784,531	5,325,334
Municipal	186,470	213,619	223,520	185,891	161,164
Outside city	847,091	801,959	801,042	715,594	670,471
Other	427,688	786,940	797,772	849,644	474,504
<i>Total Wastewater Operating Revenues</i>	\$ 19,976,546	\$ 19,389,491	\$ 20,637,004	\$ 18,743,680	\$ 16,722,392
TOTAL SALES AND SERVICES CHARGES	\$ 213,609,954	\$ 163,496,747	\$ 190,565,869	\$ 157,172,232	\$ 132,782,569

REVENUE CAPACITY
UNIT SALES BY UTILITY - LAST TEN YEARS ¹

	2013	2012	2011	FY 2010	FY 2009
ELECTRIC SERVICE (kWh)					
Residential	533,303,461	550,169,186	550,421,195	528,459,863	500,830,035
Commercial Non-Demand	134,939,048	136,833,986	136,117,506	131,502,719	131,592,355
Municipal	38,895,227	38,876,114	39,038,235	38,912,608	38,693,875
Commercial Demand	570,125,749	577,866,685	552,274,846	547,906,595	538,603,116
Other	2,232,972	2,234,448	2,188,674	2,183,004	2,156,058
<i>Total Electric Unit Sales</i>	1,279,496,457	1,305,980,419	1,280,040,456	1,248,964,789	1,211,875,439

WATER SERVICE - 1,000 GALLONS					
Inside City	6,294,433	6,269,037	6,431,432	5,488,648	6,117,159
Outside City	161,450	150,957	159,187	138,846	147,236
Municipal	189,804	223,176	190,732	129,757	153,402
Other	555,452	582,502	576,616	524,299	581,193
<i>Total Water Unit Sales</i>	7,201,139	7,225,672	7,357,967	6,281,550	6,998,990

WASTEWATER SERVICE - 1,000 GALLONS					
Residential	3,036,404	3,024,487	3,102,690	2,605,256	2,930,048
Commercial	1,677,306	1,659,010	1,703,770	1,597,067	1,654,968
Municipal	80,169	98,579	60,720	45,905	47,571
Outside City	122,924	118,546	125,817	107,481	117,281
Other	3,671	6,197	6,861	8,248	8,579
<i>Total Wastewater Unit Sales</i>	4,920,474	4,906,819	4,999,858	4,363,957	4,758,447

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
ELECTRIC SERVICE					
Residential	492,440,123	482,667,057	464,233,888	460,554,053	438,940,037
Commercial Non-Demand	151,550,919	144,469,924	128,883,400	132,698,091	128,322,356
Municipal	37,337,658	35,891,236	34,594,940	33,995,538	33,115,567
Commercial Demand	553,765,276	556,660,013	513,297,878	485,395,220	476,184,059
Other	2,210,427	2,249,019	2,134,692	2,039,922	1,966,338
<i>Total Electric Unit Sales</i>	1,237,304,403	1,221,937,249	1,143,144,798	1,114,682,824	1,078,528,357

WATER SERVICE					
Inside City	5,802,459	5,425,569	5,824,475	5,605,718	5,354,508
Outside City	127,173	124,426	117,186	115,766	107,934
Municipal	130,520	128,075	154,909	124,677	102,458
Other	491,686	520,179	449,766	521,073	466,365
<i>Total Water Unit Sales</i>	6,551,838	6,198,249	6,546,336	6,367,234	6,031,265

WASTEWATER SERVICE					
Residential	2,770,296	2,513,955	2,668,519	2,516,244	2,276,032
Commercial	1,600,161	1,546,491	1,610,776	1,550,500	1,669,429
Municipal	48,953	56,673	58,507	58,783	61,135
Outside City	103,510	94,591	101,588	88,730	88,968
Other	7,333	10,275	7,881	5,066	4,997
<i>Total Wastewater Unit Sales</i>	4,530,253	4,221,985	4,447,271	4,219,323	4,100,561

¹ Excludes Public Utilities Board's usage

**REVENUE CAPACITY
TEN YEAR RATE ANALYSIS
RESIDENTIAL RATES**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
ELECTRIC¹										
Customer Service Charge	\$ 5.25	\$ 3.53	\$ 3.53	\$ 2.53	\$ 2.53	\$ 2.53	\$ 5.53	\$ 5.53	\$ 5.24	\$ 4.99
Energy Charge										
First 500 kWh	0.04708	0.04708	0.04708	0.04708	0.04708	0.04708	0.04708	0.04708	0.04460	0.04250
Over 500 kWh	0.05479	0.05152	0.04708	0.04708	0.04708	0.04708	0.04708	0.04708	0.04460	0.04250
Fuel & Purchased Power	0.04000	0.03200	0.04200	0.03500	0.04000	0.07000	0.04250	0.05800	0.07200	0.04700
WATER (Inside City)²										
First 16,000 gallons	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.73	\$ 1.73
Over 16,000 gallons	-	-	-	-	-	-	-	-	2.60	2.60
0-3,000 gallons	1.63	1.63	1.55	1.55	1.55	1.55	1.55	1.68	-	-
3,001-9,000 gallons	1.80	1.80	1.71	1.71	1.71	1.71	1.71	1.86	-	-
9,001 to 16,000 gallons	2.23	2.23	2.12	2.12	2.12	2.12	2.12	1.93	-	-
Over 16,000 gallons	3.36	3.36	3.20	3.20	3.20	3.20	3.20	2.90	-	-
Customer Service Charge										
5/8x3/4 Water Meter Size	9.93	9.93	9.47	9.47	9.47	9.47	9.47	9.47	9.47	9.47
WATER (Outside City)²										
First 16,000 gallons	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.60	\$ 2.60
Over 16,000 gallons	-	-	-	-	-	-	-	-	3.91	3.91
0-3,000 gallons	2.65	2.65	2.52	2.52	2.52	2.52	2.52	2.52	-	-
3,001-9,000 gallons	2.93	2.93	2.79	2.79	2.79	2.79	2.79	2.79	-	-
9,001 to 16,000 gallons	3.05	3.05	2.90	2.90	2.90	2.90	2.90	2.90	-	-
Over 16,000 gallons	4.56	4.56	4.34	4.34	4.34	4.34	4.34	4.34	-	-
Customer Service Charge										
5/8 x 3/4 Water Meter Size	14.90	14.90	14.21	14.21	14.21	14.21	14.21	14.21	14.21	14.21
SEWER (Inside City)³										
Rate per 1,000 gallons	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.40	\$ 3.21	\$ 3.15
0-7,000 gallons	3.29	3.29	3.13	3.13	3.13	3.13	3.13	-	-	-
Over 7,000 gallons	3.57	3.57	3.40	3.40	3.40	3.40	3.40	-	-	-
Customer Service Charge										
5/8 x 3/4 Water Meter Size	7.17	7.17	6.84	6.84	6.84	6.84	6.84	6.84	6.84	6.71
SEWER (Outside City)										
Rate per 1,000 gallons	\$ 5.36	\$ 5.36	\$ 5.10	\$ 5.10	\$ 5.10	\$ 5.10	\$ 5.10	\$ 5.10	\$ 4.81	\$ 4.72
Customer Service Charge										
5/8 x 3/4 Water Meter Size	10.75	10.75	10.26	10.26	10.26	10.26	10.26	10.26	10.28	10.08

¹ Electric rates were tiered effective fiscal year 2012.

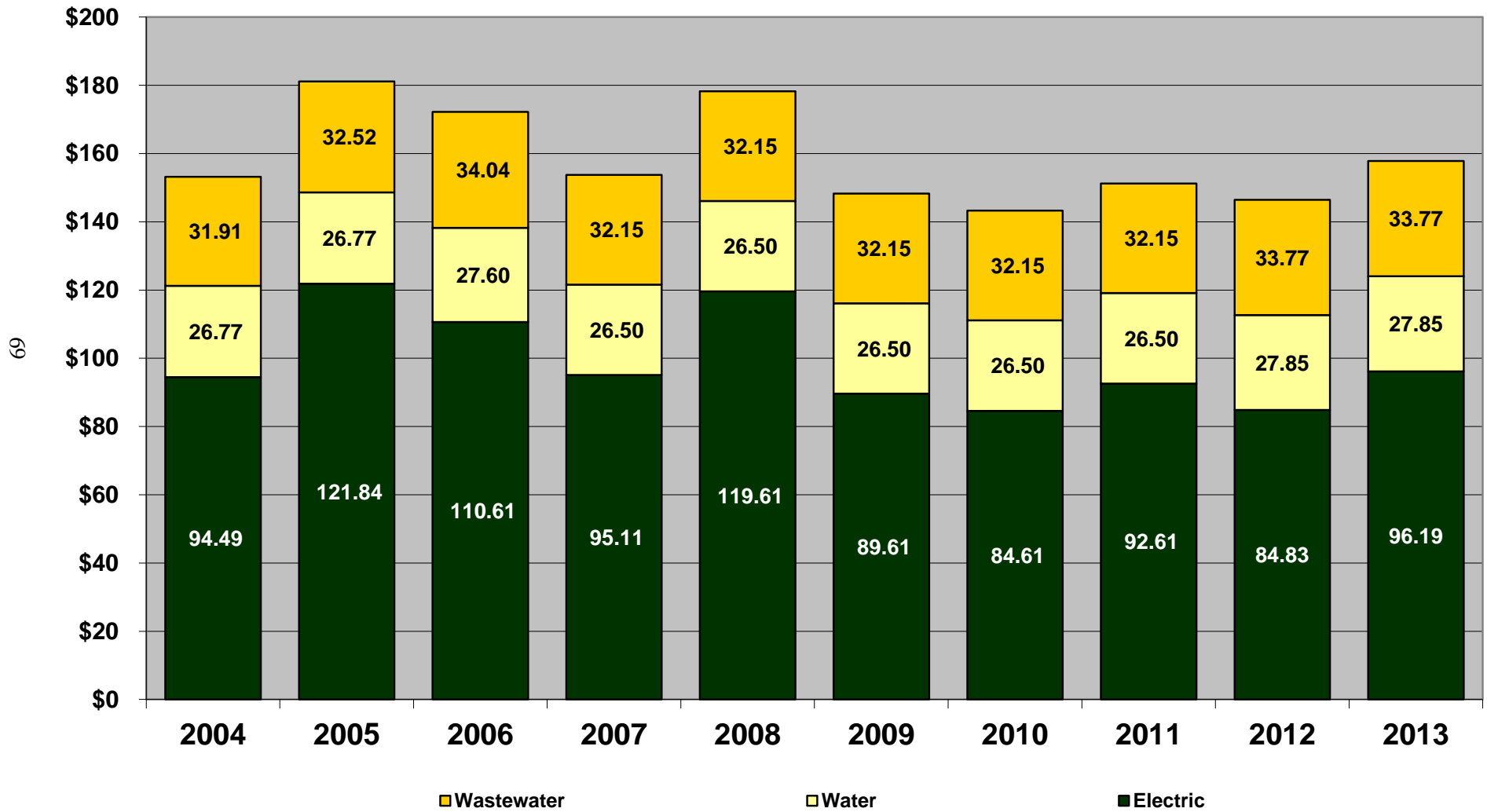
² Water rates were tiered effective fiscal year 2006.

³ Wastewater rates were tiered effective March 2007.

Note: The City Commission of the City of Brownsville, Texas is vested with the right to set utility rates.



REVENUE CAPACITY
Total Average Residential Monthly Charges
For the Month Ending September 30
Based on 1,000 kWh of electric, 10,000 gallons of water,
and 8,000 gallons of wastewater consumption
(Inside City Limits)



SYSTEM RATE INCREASES - LAST TEN YEARS

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
2013	7.0%	-	-
2012	5.0%	5.0%	5.0%
2011	-	-	-
2010	-	-	-
2009	-	-	-
2008	-	-	-
2007	-	-	-
2006	5.5%	8.0%	5.0%
2005	5.0%	-	2.0%
2004	-	-	7.0%

FOOTNOTE

Inside City residential rate decreases in the water/wastewater systems went into effect March 1, 2007.

Electric residential customer service charge reduction went into effect October 1, 2007.

Debt Capacity

DEBT CAPACITY
COMPUTATION OF DEBT SERVICE COVERAGE - LAST TEN YEARS¹

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
OPERATING INCOME	\$21,947,648	\$32,747,013	\$27,225,798	\$31,287,495	\$22,931,849
ADD:					
Depreciation Expense	26,503,185	22,739,173	27,407,627	24,695,565	23,805,841
Investment & Other Income	546,098	654,057	611,866	829,400	1,789,499
LESS:					
Interest on Construction Funds	8,823	(13,501)	(41,141)	(54,790)	(211,610)
NET AVAILABLE INCOME	\$48,988,108	\$56,126,742	\$55,204,150	\$56,757,670	\$48,315,579
DEBT SERVICE:					
Revenue Bonds Payable Current	\$8,649,000	\$8,277,000	\$7,856,000	\$7,530,000	\$6,779,000
Total Interest Expense	15,310,103	14,399,174	14,829,065	15,186,316	15,216,696
Operating Reserve	-	-	-	-	-
Commercial Paper Interest Expense	14,359	39,891	36,668	34,755	-
Capital Improvement Charges	-	-	-	-	-
NET CASH DEBT SERVICE	\$23,973,462	\$22,716,065	\$22,721,733	\$22,751,071	\$21,995,696
DEBT SERVICE COVERAGE (TIMES)	2.04	2.47	2.43	2.49	2.20

	FY 2008	FY 2007	FY 2006	FY 2005	2004
OPERATING INCOME	\$37,916,668	\$27,381,991	\$31,872,668	\$27,390,709	\$20,325,194
ADD:					
Depreciation Expense	22,832,955	21,902,616	25,689,086	19,328,651	15,838,462
Investment & Other Income	4,054,857	6,732,065	6,350,658	2,915,441	1,183,453
LESS:					
Interest on Construction Funds	(896,336)	(2,436,113)	(2,816,523)	(1,372,665)	(286,492)
NET AVAILABLE INCOME	\$63,908,144	\$53,580,559	\$61,095,889	\$48,262,136	\$37,060,617
DEBT SERVICE:					
Revenue Bonds Payable Current	\$7,903,000	\$8,099,000	\$7,775,000	\$7,485,000	\$9,365,000
Total Interest Expense	13,681,885	13,468,041	14,114,646	6,471,355	10,202,372
Operating Reserve	-	-	-	-	-
Commercial Paper Interest Expense	814,654	1,520,835	1,398,188	929,059	143,134
Capital Improvement Charges	-	-	-	440,806	182,603
NET CASH DEBT SERVICE	\$22,399,539	\$23,087,876	\$23,287,834	\$15,326,220	\$19,893,109
DEBT SERVICE COVERAGE (TIMES)	2.85	2.32	2.62	3.15	1.86

¹Excludes Southmost Regional Water Authority

DEBT CAPACITY
PRINCIPAL PAYMENTS PAYABLE ON ALL DEBT ISSUES
THROUGH FY 2039

Year End Sep 30,	PUB Revenue Improvement Refunding Bonds 2005A	PUB Revenue Improvement Refunding Bonds 2005B	PUB Revenue Refunding Bonds 2008	PUB Revenue Refunding Bonds 2011	PUB Revenue Refunding Bonds 2012	PUB Revenue Refunding Bonds 2013A	PUB Junior Lien Revenue Bonds 2007	PUB Junior Lien Revenue Bonds 2012	SRWA Water Supply Contract Refunding Bonds 2006	SRWA Water Supply Contract Revenue Bonds 2009A	SRWA Water Supply Contract Revenue Bonds 2009B	SRWA Water Supply Contract Revenue Bonds 2012	Total
2014	\$ 690,000	\$ 4,255,000	\$ 2,690,000	\$ 1,415,000	\$ 565,000	\$ 430,000	\$ 25,000	\$ 30,000	\$ 20,000	\$ 310,000	\$ 150,000	\$ 730,000	\$ 11,310,000
2015	795,000	5,910,000	2,820,000	1,470,000	575,000	440,000	26,000	30,000	20,000	310,000	155,000	755,000	13,306,000
2016	235,000	6,210,000	2,960,000	1,520,000	590,000	975,000	28,000	30,000	25,000	310,000	160,000	785,000	13,828,000
2017	220,000	6,535,000	3,110,000	1,585,000	605,000	950,000	29,000	35,000	25,000	310,000	165,000	825,000	14,394,000
2018	205,000	6,880,000	3,270,000	1,630,000	615,000	935,000	31,000	35,000	25,000	310,000	175,000	840,000	14,951,000
2019	195,000	8,190,000	3,430,000	745,000	640,000	910,000	32,000	35,000	935,000	310,000	180,000	-	15,602,000
2020	3,105,000	-	3,600,000	-	665,000	7,445,000	34,000	40,000	30,000	310,000	190,000	935,000	16,354,000
2021	3,240,000	-	3,785,000	-	690,000	7,750,000	36,000	40,000	30,000	310,000	195,000	980,000	17,056,000
2022	3,385,000	-	3,970,000	-	720,000	8,020,000	37,000	40,000	30,000	310,000	205,000	1,030,000	17,747,000
2023	3,535,000	-	4,165,000	-	750,000	8,380,000	39,000	40,000	30,000	310,000	210,000	1,085,000	18,544,000
2024	3,690,000	-	4,375,000	-	780,000	8,755,000	41,000	45,000	35,000	310,000	220,000	1,135,000	19,386,000
2025	3,855,000	-	4,595,000	-	810,000	9,150,000	44,000	45,000	35,000	310,000	230,000	1,190,000	20,264,000
2026	4,030,000	-	4,825,000	-	840,000	9,565,000	46,000	45,000	35,000	310,000	240,000	1,255,000	21,191,000
2027	4,245,000	-	5,065,000	-	865,000	9,870,000	-	50,000	35,000	310,000	250,000	1,285,000	21,975,000
2028	4,490,000	-	2,115,000	-	895,000	10,450,000	-	50,000	1,570,000	310,000	260,000	-	20,140,000
2029	4,695,000	-	2,220,000	-	920,000	10,920,000	-	50,000	1,635,000	310,000	270,000	-	21,020,000
2030	4,905,000	-	2,330,000	-	950,000	11,420,000	-	55,000	1,700,000	310,000	-	-	21,670,000
2031	5,130,000	-	2,445,000	-	985,000	11,820,000	-	55,000	1,770,000	310,000	-	-	22,515,000
2032	-	-	2,570,000	-	1,015,000	-	-	60,000	1,845,000	310,000	-	-	5,800,000
2033	-	-	2,700,000	-	1,050,000	-	-	-	-	310,000	-	-	4,060,000
2034	-	-	-	-	1,085,000	-	-	-	-	310,000	-	-	1,395,000
2035	-	-	-	-	1,125,000	-	-	-	-	310,000	-	-	1,435,000
2036	-	-	-	-	1,165,000	-	-	-	-	310,000	-	-	1,475,000
2037	-	-	-	-	1,210,000	-	-	-	-	310,000	-	-	1,520,000
2038	-	-	-	-	-	-	-	-	-	310,000	-	-	310,000
2039	-	-	-	-	-	-	-	-	-	305,000	-	-	305,000
	\$ 50,645,000	\$ 37,980,000	\$ 67,040,000	\$ 8,365,000	\$ 20,110,000	\$ 118,185,000	\$ 448,000	\$ 810,000	\$ 9,830,000	\$ 8,055,000	\$ 3,255,000	\$ 12,830,000	\$ 337,553,000

Debt Allocation By Utility	Net of Unamortized	
	Gross	Premium & Deferred Ref.
Electric	\$ 203,755,166	\$ 206,856,471
Water	73,545,800	75,847,373
Wastewater	60,252,034	62,056,941
Total Debt Capacity	<u>\$ 337,553,000</u>	<u>\$ 344,760,785</u>

Debt per Rate Payor	
Electric	\$ 4,330
Water	\$ 1,526
Wastewater	\$ 1,259

**DEBT CAPACITY
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Revenue Bonds (1)	Commercial Paper	Capital Leases	Total Outstanding Debt	Percentage of Personal Income (2)	Population (3)	Debt Per Capita
2013	\$ 344,760,785	\$ 4,000,000	\$ -	\$ 348,760,785	14.29%	180,097	\$ 1,937
2012	\$ 321,031,557	\$ 24,450,000	\$ -	\$ 345,481,557	15.30%	175,023	\$ 1,974
2011	\$ 329,777,094	\$ 20,000,000	\$ -	\$ 349,777,094	15.47%	175,023	\$ 1,998
2010	\$ 337,444,287	\$ 15,000,000	\$ -	\$ 352,444,287	17.03%	175,023	\$ 2,014
2009	\$ 331,794,841	\$ 7,500,000	\$ -	\$ 339,294,841	16.51%	176,859	\$ 1,918
2008	\$ 337,791,753	\$ -	\$ -	\$ 337,791,753	16.73%	172,806	\$ 1,955
2007	\$ 303,062,198	\$ 40,000,000	\$ -	\$ 343,062,198	17.83%	172,437	\$ 1,989
2006	\$ 308,969,761	\$ 42,750,000	\$ -	\$ 351,719,761	18.28%	172,437	\$ 2,040
2005	\$ 315,704,330	\$ 42,750,000	\$ 84,228	\$ 358,538,558	19.18%	167,493	\$ 2,141
2004	\$ 305,987,055	\$ 44,500,000	\$ 161,268	\$ 350,648,323	22.28%	161,225	\$ 2,175

(1) Presented net of original issuance discounts and premiums

(2) Personal income is disclosed on page 77

(3) Population estimates U.S. Census Bureau

Demographic and Economic Information

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**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population*	Per Capita Income	(Thousand's of Dollars) Personal Income	Median Age	Education Level in Years of Formal Schooling	Public School Enrollment	Unemployment Rate
2013	180,097	\$ 13,556	\$ 2,441,395	29.5	61.8% - High School 15.7% - Bachelor's Degree	49,274	10.30%
2012	175,023	\$ 12,900	\$ 2,257,797	29.5	60.3% - High School 15.0% - Bachelor's Degree	49,271	10.50%
2011	175,023	\$ 12,917	\$ 2,260,772	29.5	60.2% - High School 15.6% - Bachelor's Degree	49,587	12.40%
2010	175,023	\$ 11,824	\$ 2,069,472	27.0	59.5% - High School 15.2% - Bachelor's Degree	49,835	11.60%
2009	176,859	\$ 11,623	\$ 2,055,632	27.6	58.5%-High School 15.8%-Bachelor's Degree	49,605	10.90%
2008	172,806	\$ 11,685	\$ 2,019,238	26.9	57.9%-High School 15.2%-Bachelor's Degree	49,082	7.50%
2007	172,437	\$ 11,161	\$ 1,924,569	26.9	57.9%-High School 15.2%-Bachelor's Degree	48,799	5.90%
2006	172,437	\$ 11,161	\$ 1,924,569	26.7	60%-High School 16.2%-Bachelor's Degree	48,123	6.50%
2005	167,493	\$ 11,161	\$ 1,869,389	25.4	60%-High School 14.4%-Bachelor's Degree	48,236	7.35%
2004	161,225	\$ 9,762	\$ 1,573,878	-	-	47,040	11.22%

* Population Estimates U.S. Census Bureau

SOURCES:

City of Brownsville, Texas

Brownsville Independent School District

Texas Workforce Commission

U.S. Census Bureau

City of Brownsville, Texas
Principal Employers,
Current Year and Last Nine Years

Employer	2013			2012			2011		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Brownsville I.S.D.	7,708	1	10.73%	7,708	1	10.73%	7,708	1	11.24%
Keppel Amfels	2,900	2	4.04%	2,900	2	4.04%	1,600	4	2.33%
University of Texas at Brownsville	2,343	4	3.26%	2,343	4	3.26%	2,343	2	3.42%
Cameron County	2,040	5	2.84%	2,040	5	2.84%	2,040	3	2.97%
Wal-Mart	1,055	8	1.47%	1,055	8	1.47%	1,174	6	1.71%
City of Brownsville	1,200	6	1.67%	1,200	6	1.67%	1,200	5	1.75%
Convergys Corp.	-	-	-	-	-	-	623	7	0.91%
H.E.B. Food Stores	975	9	1.36%	975	9	1.36%	975	8	1.42%
Valley Regional Medical Center	786	10	1.09%	786	10	1.09%	786	9	1.15%
Caring For You Home Health	2,635	3	3.67%	2,635	3	3.67%	-	-	-
Abundant Life Home Health	1,200	7	1.67%	1,200	7	1.67%	-	-	-
Valley Baptist Medical Center	-	-	-	-	-	-	738	10	1.08%
Total	<u>22,842</u>		<u>31.80%</u>	<u>22,842</u>		<u>31.80%</u>	<u>19,187</u>		<u>27.98%</u>

Source:

Brownsville Economic Development Council

City of Brownsville, Texas
Principal Employers,
Current Year and Last Nine Years

2010			2009			2008			2007		
Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
7,434	1	6.03%	7,080	1	5.69%	7,080	1	5.61%	7,080	1	5.71%
1,695	4	1.37%	2,273	2	1.83%	2,273	2	1.80%	2,273	2	1.83%
2,386	2	1.94%	2,077	3	1.67%	2,077	3	1.64%	2,077	3	1.67%
2,076	3	1.68%	1,838	4	1.48%	1,838	4	1.46%	1,838	4	1.48%
1,174	6	0.95%	1,174	5	0.94%	1,174	5	0.93%	1,174	5	0.95%
1,178	5	0.96%	1,114	6	0.90%	1,114	6	0.88%	1,114	6	0.90%
1,000	7	0.81%	800	7	0.64%	800	7	0.63%	800	7	0.64%
975	8	0.79%	760	8	0.61%	760	8	0.60%	760	8	0.61%
757	9	0.61%	757	9	0.61%	757	9	0.60%	757	9	0.61%
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
717	10	0.58%	717	10	0.58%	717	10	0.57%	717	10	0.58%
19,392		15.73%	18,590		14.94%	18,590		14.72%	18,590		14.98%

Source:

Brownsville Economic Development Council

Continued

City of Brownsville, Texas
Principal Employers,
Current Year and Last Nine Years - Continued

Employer	2006			2005			2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Brownsville I.S.D.	7,080	1	5.83%	6,926	1	5.95%	6,125	1	5.30%
AMFELS	2,273	2	1.87%	1,185	4	1.02%	706	9	0.61%
University of Texas at Brownsville	2,077	3	1.71%	1,828	2	1.57%	1,628	2	1.41%
Cameron County	1,608	4	1.32%	1,714	3	1.47%	1,550	3	1.34%
Wal-Mart	1,174	5	0.97%	1,119	5	0.96%	885	5	0.77%
City of Brownsville	1,114	6	0.92%	1,072	6	0.92%	1,155	4	1.00%
Convergys Corp.	1,000	7	0.82%	875	7	0.75%	850	6	0.74%
H.E.B. Food Stores	760	8	0.63%	760	9	0.65%	755	8	0.65%
Valley Regional Medical Center	757	9	0.62%	737	10	0.63%	703	10	0.61%
Caring For You Home Health	-	-	-	-	-	-	-	-	-
Abundant Life Home Health	-	-	-	-	-	-	-	-	-
Valley Baptist Medical Center	717	10	0.59%	808	8	0.69%	808	7	0.70%
Total	<u>18,560</u>		<u>15.29%</u>	<u>17,024</u>		<u>14.61%</u>	<u>15,165</u>		<u>13.12%</u>

Source:

Brownsville Economic Development Council

Operating Information

OPERATING INFORMATION
EXPENSES BY UTILITY - LAST TEN YEARS

	2013	2012	2011	2010
ELECTRIC				
Generation and Purchases for Resale	\$ 58,343,217	\$ 54,353,235	\$ 60,519,100	\$ 64,165,188
Transmission and Distribution	6,305,706	6,347,120	5,464,375	4,624,680
Administrative and General	20,656,916	18,697,201	16,918,463	16,366,264
Depreciation	14,793,412	13,373,507	16,331,733	14,662,285
Total Electric Operating Expenses	<u>\$ 100,099,251</u>	<u>\$ 92,771,063</u>	<u>\$ 99,233,671</u>	<u>\$ 99,818,417</u>
WATER				
Plant Operations	\$ 5,649,170	\$ 4,993,739	\$ 4,707,258	\$ 3,432,591
Transmission and Distribution	2,565,614	2,514,676	2,655,300	2,426,368
Administrative and General	4,748,131	4,081,484	3,961,827	3,875,983
Depreciation	5,345,962	3,766,336	3,941,128	4,286,330
Total Water Operating Expenses	<u>\$ 18,308,877</u>	<u>\$ 15,356,235</u>	<u>\$ 15,265,513</u>	<u>\$ 14,021,272</u>
WASTEWATER				
Plant Operations	\$ 6,138,037	\$ 5,967,684	\$ 6,117,905	\$ 5,539,157
Transmission and Distribution	764,006	804,846	967,001	1,382,386
Administrative and General	5,171,407	4,696,229	4,703,383	4,536,291
Depreciation	6,363,811	5,599,330	7,134,766	5,746,950
Total Wastewater Operating Expenses	<u>\$ 18,437,261</u>	<u>\$ 17,068,089</u>	<u>\$ 18,923,055</u>	<u>\$ 17,204,784</u>
SOUTHMOST REGIONAL WATER AUTHORITY				
Administration and General	\$ 2,970,231	\$ 2,587,656	\$ 2,437,963	\$ 2,322,669
Depreciation	862,860	862,649	862,355	859,740
Total SRWA Operating Expenses	<u>\$ 3,833,091</u>	<u>\$ 3,450,305</u>	<u>\$ 3,300,318</u>	<u>\$ 3,182,409</u>
TOTAL OPERATING EXPENSES	<u>\$ 140,678,480</u>	<u>\$ 128,645,692</u>	<u>\$ 136,722,557</u>	<u>\$ 134,226,882</u>
OTHER NONOPERATING REVENUES (EXPENSES)¹	<u>\$ (16,689,611)</u>	<u>\$ (16,906,771)</u>	<u>\$ (18,019,030)</u>	<u>\$ (4,728,236)</u>

¹ Excludes payments to City of Brownsville

FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
\$ 67,454,789	\$ 101,176,542	\$ 67,165,042	\$ 89,266,558	\$ 70,509,676	\$ 58,070,829
4,611,675	3,920,988	3,486,094	2,497,172	2,661,484	2,374,079
16,376,681	13,236,701	12,397,626	12,030,998	10,959,383	10,706,644
13,961,232	13,622,466	12,647,117	16,357,921	10,885,513	8,740,532
<u>\$ 102,404,377</u>	<u>\$ 131,956,697</u>	<u>\$ 95,695,879</u>	<u>\$ 120,152,649</u>	<u>\$ 95,016,056</u>	<u>\$ 79,892,084</u>
\$ 3,870,958	\$ 3,122,381	\$ 2,782,802	\$ 2,730,596	\$ 2,681,328	\$ 2,641,700
2,584,580	2,110,791	1,897,290	1,652,982	1,595,306	1,714,461
3,916,202	5,438,548	5,131,917	4,801,385	4,595,069	4,564,226
4,420,121	4,138,811	3,791,008	3,605,668	3,769,817	2,851,589
<u>\$ 14,791,861</u>	<u>\$ 14,810,531</u>	<u>\$ 13,603,017</u>	<u>\$ 12,790,631</u>	<u>\$ 12,641,520</u>	<u>\$ 11,771,976</u>
\$ 5,586,811	\$ 5,039,214	\$ 4,116,603	\$ 3,439,993	\$ 3,183,812	\$ 3,164,908
1,103,481	1,117,675	930,871	862,280	748,237	984,555
4,505,516	5,962,321	5,305,607	5,040,621	4,677,346	4,622,636
5,424,488	5,071,678	5,464,491	5,725,496	4,673,321	4,246,341
<u>\$ 16,620,296</u>	<u>\$ 17,190,888</u>	<u>\$ 15,817,572</u>	<u>\$ 15,068,390</u>	<u>\$ 13,282,716</u>	<u>\$ 13,018,440</u>
\$ 2,727,667	\$ 2,461,614	\$ 2,325,001	\$ 2,303,829	\$ 1,399,347	\$ 632,071
857,645	858,151	868,275	774,124	337,156	-
<u>\$ 3,585,312</u>	<u>\$ 3,319,765</u>	<u>\$ 3,193,276</u>	<u>\$ 3,077,953</u>	<u>\$ 1,736,503</u>	<u>\$ 632,071</u>
<u>\$ 137,401,846</u>	<u>\$ 167,277,881</u>	<u>\$ 128,309,744</u>	<u>\$ 151,089,623</u>	<u>\$ 122,676,795</u>	<u>\$ 105,314,571</u>
<u>\$ (14,641,424)</u>	<u>\$ (12,416,165)</u>	<u>\$ (10,778,680)</u>	<u>\$ (13,050,339)</u>	<u>\$ (6,290,197)</u>	<u>\$ (11,824,323)</u>

OPERATING INFORMATION
ELECTRIC ENERGY SOURCES, WATER AND WASTEWATER STATISTICS
LAST TEN YEARS

	FY 2013	FY 2012	FY 2011	FY 2010
SOURCES OF ENERGY (kWh)				
Total Net Energy Generated	924,212,443	830,108,370	1,353,750,565	1,577,510,000
Total Energy Purchased	508,341,700	704,742,700	429,383,640	378,317,000
TOTAL SOURCES OF ENERGY	1,432,554,143	1,534,851,070	1,783,134,205	1,955,827,000
Less: System Losses and Inadvertent Energy (kWh)	(27,070,226)	-	-	(69,693,000)
Net Available for Sale (kWh)	1,405,483,917	1,534,851,070	1,783,134,205	1,886,134,000
Sales for Resale (kWh)	(5,915,000)	(48,313,210)	(245,366,425)	(366,669,000)
NET ENERGY FOR LOAD	1,399,568,917	1,486,537,860	1,537,767,779	1,519,465,000
WATER STATISTICS				
Water Production - 1,000 Gallons				
Raw Water Treated	6,611,306	6,742,810	7,502,790	7,073,522
Raw Water Used in Plant	(398,363)	(515,470)	(791,199)	(845,261)
Surface Water Treated	6,212,943	6,227,340	6,711,591	6,228,261
SRWA (Purchased Water)*	1,963,421	2,025,507	1,929,481	1,947,011
Water Pumped to City	8,176,364	8,252,847	8,641,072	8,175,272
Water Sales	7,251,194	7,259,778	7,417,175	6,321,717
Other Unmetered Usage	227,400	98,519	68,577	88,719
Losses and Unaccounted for Gallonage	697,770	894,550	1,155,320	1,764,836
Thousand Gallons to System	8,176,364	8,252,847	8,641,072	8,175,272
Unaccounted For	11.32%	10.84%	13.37%	21.59%
Average Daily Consumption	22,334	22,541	23,674	22,398
Peak Maximum Demand (MG)	30	29	30	29
Date	7/3/2013	6/18/2012	6/17/2011	4/5/2010
WASTEWATER STATISTICS				
Annual Demand (1,000 Gals.)	4,799,312	4,885,625	4,992,236	5,522,605
Maximum Day (MG)	29.1	25.9	32.6	38.5

* FY 2006 through FY 2013 Water Production includes Southmost Regional Water Authority Production.

FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
1,120,083,000	1,304,850,000	1,174,655,000	1,041,227,000	1,037,312,000	920,715,000
528,558,000	181,698,000	224,840,000	374,198,000	351,910,000	392,789,000
1,648,641,000	1,486,548,000	1,399,495,000	1,415,425,000	1,389,222,000	1,313,504,000
(82,039,000)	(67,321,000)	(34,606,000)	(45,282,000)	(34,500,000)	(15,703,000)
1,566,602,000	1,419,227,000	1,364,889,000	1,370,143,000	1,354,722,000	1,297,801,000
(250,127,000)	(84,279,000)	(50,295,000)	(125,884,000)	(123,245,000)	(20,643,000)
1,316,475,000	1,334,948,000	1,314,594,000	1,244,259,000	1,231,477,000	1,277,158,000
8,217,557	7,427,578	6,572,379	7,173,000	7,660,000	7,526,428
(439,663)	(290,178)	(250,170)	(734,543)	(512,000)	(706,428)
7,777,894	7,137,400	6,322,209	6,438,457	7,148,000	6,820,000
1,617,101	1,649,267	1,762,984	1,545,520	-	-
9,394,995	8,786,667	8,085,193	7,983,977	7,148,000	6,820,000
7,062,104		6,245,897	6,621,000	6,411,000	6,084,000
44,915	21,809	29,067	222,013	142,354	6,210
2,287,976	2,140,368	1,810,229	1,140,964	594,646	729,790
9,394,995	8,786,667	8,085,193	7,983,977	7,148,000	6,820,000
24.35%	24.61%	22.39%	14.29%	8.32%	10.70%
25,740	24,007	22,151	21,874	19,584	18,685
39	33	31	31	30	25
6/16/2009	6/19/2008	06/19/07	05/02/06	07/08/05	07/24/04
5,052,595	5,154,241	4,966,233	4,574,090	4,544,000	4,599,000
25.5	19.7	26.6	19.7	18.4	26.1

OPERATING INFORMATION
AUTHORIZED FULL TIME POSITIONS BY DEPARTMENT AND UTILITY
LAST TEN YEARS

		Budget				
	DEPARTMENT	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
1110	General Manager	4	4	5	4	4
1120	Internal Audit	3	3	3	3	2
1125	Key Account Marketing	3	3	3	3	3
1130	Communications & Adm. Services	2	2	4	3	3
1135	Communications & PUB Relations	3	3	3	2	2
1140	Organizational Development	3	3	3	3	3
1145	Energy Risk Management	1	1	1	1	1
1150	Board of Directors	0	0	0	0	0
1165	Records Management	2	2	0	0	0
1410	Environmental Services	3	3	3	6	6
1440	Health & Safety	6	6	5	4	4
5110	Finance	7	7	6	6	6
5120	Accounting	12	12	12	11	11
5130	Purchasing & Central Stores	6	6	6	6	6
5140	Revenue Recovery	3	3	3	2	2
6105	Customer & Information Services	3	3	3	4	4
6110	Customer Service	10	10	11	10	10
6115	Collections	4	4	4	4	4
6120	Billing	7	7	7	6	6
6125	Call Center	11	11	10	8	8
6130	Meter Services	9	9	9	9	9
6135	CIS Support	3	3	3	3	3
6145	Energy Efficiency & Conservation	1	1	1	1	1
6150	Meter Reading	15	15	15	15	15
6160	Cashiers	7	7	8	8	8
7120	Risk/Insurance Management	2	2	2	1	1
7130	Information Services	16	16	16	16	16
7135	GIS	12	12	11	8	8
7140	Human Resources	8	8	7	5	5
7150	Fleet Management	9	9	9	8	7
7160	Facility Maintenance	4	4	4	4	4
7170	Warehouse	6	6	6	6	6
TOTAL ADMINISTRATIVE		185	185	183	170	168
1420	Environmental Compliance	6	6	6	3	3
2120	Substation & Relaying	11	11	9	9	9
2130	Elec Trans & Dist New Const	29	29	30	29	29
2140	Elec Trans & Dist Maintenance	28	28	28	27	27
2150	Energy Control Center Operations	13	13	13	13	13
2210	Fuel & Energy/SCADA	23	23	23	20	19
2220	Power Plant	25	25	25	23	23
2310	Electric Meter Shop	7	7	7	7	7
2410	Electric Engineering	13	13	15	16	16
TOTAL ELECTRIC		155	155	156	147	146
1422	Analytical Lab	13	13	14	12	12
1430	Pre-treatment	9	9	9	9	9
3110	W & WW Eng. & Operations	4	4	4	4	4
3120	Water Plant I	8	8	9	8	9
3130	Water Plant II	9	9	8	8	8
3140	Raw Water Supply	3	3	3	2	2
3135	Resaca Maintenance	11	11	1	0	0
3145	W/WW Plant Maintenance	13	13	15	12	12
3150	W/WW Operations & Const.	63	63	64	58	58
3210	South W/WW Treat Plant	9	9	9	11	11
3220	Robindale W/W Treat Plant	12	12	13	8	9
3230	Lift Stations	30	30	28	23	23
3310	Water & W/W Engineering	23	23	22	22	21
TOTAL WATER/WASTEWATER		207	207	199	177	178
OVERALL TOTAL NO. OF POSITION:		547	547	538	494	492

FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
5	4	4	4	4	4
3	1	1	1	1	1
3	3	3	3	3	5
4	3	3	3	3	5
2	1	0	0	0	5
4	3	4	4	3	2
1	1	1	1	1	1
0	0	0	0	0	0
0	0	0	0	0	0
8	5	4	4	4	7
4	3	2	2	2	2
5	5	4	4	4	4
12	11	11	11	11	11
6	12	13	13	13	13
1	0	0	0	0	0
4	4	3	3	3	3
9	10	9	9	10	9
4	4	3	3	3	4
7	9	9	9	9	7
7	7	10	10	9	10
10	9	9	9	9	8
3	3	3	3	3	2
1	1	0	0	0	0
15	15	13	13	13	12
9	8	8	8	8	10
2	1	2	2	2	1
14	14	14	14	14	14
9	8	9	7	7	5
5	5	5	5	5	4
8	7	7	7	7	8
5	4	4	4	4	4
7	0	0	0	0	0
177	161	158	156	155	161
3	3	3	3	3	3
9	9	9	9	9	9
31	28	28	28	36	36
29	26	26	26	18	18
12	12	12	11	11	4
19	16	11	10	10	15
23	24	25	26	26	32
9	7	7	7	7	6
17	17	17	16	17	19
152	142	138	136	137	142
13	13	14	14	14	14
11	11	11	9	9	9
4	4	4	3	3	5
9	9	9	9	9	11
9	8	8	7	8	7
3	14	14	14	11	14
0	0	0	0	0	0
13	0	0	0	0	0
82	69	69	72	70	74
9	8	9	8	9	9
10	9	9	9	8	9
14	12	13	13	13	13
15	14	16	12	16	12
192	171	176	170	170	177
521	474	472	462	462	480

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS**

FY 2013

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**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2012

Intentionally left blank due to “Proprietary and Confidential” information.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2011

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**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2010

Intentionally left blank due to “Proprietary and Confidential” information.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2009

Intentionally left blank due to “Proprietary and Confidential” information.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2008

Intentionally left blank due to “Proprietary and Confidential” information.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2007

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**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2006

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**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2005

Intentionally left blank due to “Proprietary and Confidential” information.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2004

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OPERATING INFORMATION
CAPITAL ASSETS STATISTICS BY UTILITY
LAST NINE FISCAL YEARS

	FISCAL YEAR								
Electric	2013	2012	2011	2010	2009	2008	2007	2006	2005
Number of Power Plants	3	3	3	3	3	3	3	3	3
Vehicles	125	128	115	114	108	98	83	79	70
Transmission Miles	336	328	328	328	320	308	308	308	303
Distribution Miles	3,518	3,484	3,408	3,408	3,361	3,239	3,236	3,202	2,893
Poles	112,528	112,298	112,001	111,706	111,158	110,369	110,041	109,892	106,066
Transformers	36,413	36,348	36,186	36,097	35,078	34,558	34,408	34,275	34,240
Substations	15	15	15	15	15	15	15	15	14
Meters	56,538	55,853	54,978	59,752	59,035	57,992	55,367	53,948	50,858
Water									
Vehicles	83	76	74	81	73	69	59	51	49
Water Treatment Plants	3	3	3	3	3	3	3	3	3
Miles of water mains	2,842	2,840	2,834	2,827	2,823	2,812	2,776	2,767	2,744
Meters	60,040	60,235	49,944	49,217	48,483	46,946	45,690	45,611	43,812
Fire Hydrants	36,159	37,695	37,664	37,524	37,475	37,360	37,069	36,981	36,711
Wastewater									
Vehicles	75	76	61	54	53	49	43	42	27
Wastewater Treatment Plants	2	2	2	2	2	2	2	2	2
Lift Stations	158	158	168	168	163	163	163	163	163
Miles of wastewater mains	827	802	799	797	793	787	741	730	712
General									
Vehicles	66	67	62	58	47	45	44	42	58

Source:
Microsoft Dynamics - GP System

Notes: Capital Asset information prior to Fiscal year 2005 is not readily available.

Single Audit Section

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the blended component unit of the Public Utilities Board of the City of Brownsville, Texas, a component unit of the City of Brownsville, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Public Utilities Board of the City of Brownsville, Texas's basic financial statements and have issued our report thereon dated March 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Public Utilities Board of the City of Brownsville, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Utilities Board of the City of Brownsville, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Utilities Board of the City of Brownsville, Texas's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Long Chilton LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
March 5, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

To the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

Report on Compliance for Each Major Federal/State Program

We have audited the Public Utilities Board of the City of Brownsville, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of the Public Utilities Board of the City of Brownsville, Texas's major federal/state programs for the year ended September 30, 2013. The Public Utilities Board of the City of Brownsville, Texas's major federal/state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal/state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Public Utilities Board of the City of Brownsville, Texas's major federal/state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, and OMB Circular A-133 and the *State of Texas Single Audit Circular*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal/state program occurred. An audit includes examining, on a test basis, evidence about the Public Utilities Board of the City of Brownsville, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal/state program. However, our audit does not provide a legal determination of the Public Utilities Board of the City of Brownsville, Texas's compliance.

Opinion on Each Major Federal/State Program

In our opinion, the Public Utilities Board of the City of Brownsville, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal/state programs for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of the Public Utilities Board of the City of Brownsville, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Public Utilities Board of the City of Brownsville, Texas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal/state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal/state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Public Utilities Board of the City of Brownsville, Texas's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal/state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal/state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
March 5, 2014

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Schedule of Findings and Questioned Costs
For The Fiscal Year Ended September 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements	None
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of report on compliance with major programs	Unqualified
Findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	None
Dollar threshold considered between Type A and Type B federal programs	\$506,282
Low risk auditee statement	The Public Utilities Board was classified as a high-risk auditee due to untimely filing of the Data Collection Form.
Major federal program	EPA – Brownsville Weir Project CFDA #66.606 ARRA Clean Water State Revolving Fund CFDA #66.458
Major state program	TWDB – FM 511 & 802 project and Villanueva Colonia Contract #G120010 and G120009

B. FINANCIAL STATEMENT FINDINGS

None

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Schedule of Prior Audit Year Findings
For The Fiscal Year Ended September 30, 2013

N/A – No prior findings

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Corrective Action Plan
For The Fiscal Year Ended September 30, 2013

N/A – No prior findings

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Schedule of Expenditures of Federal and State Awards
For The Fiscal Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
FEDERAL FINANCIAL ASSISTANCE			
ENVIRONMENTAL PROTECTION AGENCY			
<i>Brownsville Robindale WWTP</i>	66.606		\$ 13,113,676
TEXAS WATER DEVELOPMENT BOARD			
<i>ARRA Clean Water State Revolving Fund Project</i>	66.458	G100007	<u>3,762,394</u>
Total Expenditures of Federal Awards			<u>16,876,070</u>
STATE FINANCIAL ASSISTANCE			
TEXAS WATER DEVELOPMENT BOARD			
<i>FM511 & 802 Project - Construction</i>	N/A	G120010	2,714,364
<i>Villanueva Colonia - Construction</i>	N/A	G120009	<u>799,696</u>
Total Expenditures and Disbursements of State Awards			<u>3,514,060</u>
Total of Federal and State Awards			<u><u>\$ 20,390,130</u></u>

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Notes to the Schedule of Expenditures of Federal and State Awards
For The Fiscal Year Ended September 30, 2013

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of the Public Utilities Board and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.