



**REQUEST FOR QUALIFICATIONS
PROFESSIONAL AUDIT SERVICES
ADDENDUM #1**

RFQ No. S14-012

Addendum #: 1

Date: April 10, 2014

Please note the clarification and/or additional information for the solicitation referenced above.

- 1. Q: Can the City provide the fee history of past audit services from 2011, 2012 and 2013 provided by Davis Kinard & Co.?**

A: Yes. 2011 = \$41,500; 2012 = \$42,750; 2013 = \$46,525.
- 2. Q: What financially significant system(s) does the City use for the General Ledger?**

A: Incode.
- 3. Q: Is the City able to download your trial balance into excel?**

A: Yes.
- 4. Q: When does the City anticipate a trial balance for fiscal year 2014 will be ready for the auditors?**

A: Prelim TB at 10/24/14. We can provide sooner, but the first couple of weeks in October we like to catch up with as many AP & AR accruals as possible.
- 5. Q: Does the City anticipate any system conversion or significant updates over the next 5 years?**

A: The only planned conversion is with our Building Permits module. That department is switching to MyPermitsNow software which should become operational in late FY14. Financial information will be exported from the new software and imported into Incode.
- 6. Q: Has the City had or anticipate turnover of key accounting and finance personnel?**

A: No.
- 7. Q: Has the City had or anticipate turnover of any significant outside service organizations**
- 8. A: No.**
- 9. Q: Can the City provide management letter comments within past two years?**

A: See attachments.
- 10. Q: How many entries were identified through audit process in the last audit?**

A: See attachments.
- 11. Q: How many auditors have been on site and for how long?**

A: Typically firms assign 1 lead and 2 staff auditors for one to two weeks.
- 12. Q: Any significant or unusual transactions entered into since last audit not reflected with in the prior year annual report?**

A: None.
- 13. Q: Are audited financial statements provided for the joint venture?**
- 14. A: See attachment.**
- 15. Q: Why is the City considering changing auditors?**

- A: City charter requires a change in auditors every three years.
16. Q: **Will the current auditor be able to submit a proposal?**
A: No.
17. Q: **It appears the 2013 audit was issued on Feb 11th. Is this representative of management's desire for future report issuance?**
A: Yes. No later than February 25, 2015.
18. Q: **Have the City's past auditors performed interim procedures (prior to year-end) in the past? If so, how long were they on location, and what is management's desired timing for interim procedures?**
A: On occasion interim procedures have been performed for a period of 4-5 days in mid to late September.
19. Q: **What is management's desired timing for final fieldwork?**
A: Early November.
20. Q: **Has management or the auditors typically prepared the financial statements and footnotes? MD&A? GASB 34 conversion?**
A: MD&A and GASB conversion have been performed by the auditors.
21. Q: **Does the City maintain its own fixed asset ledger, including depreciation, or have the auditors done this in the past?**
A: The City maintains this.
22. Q: **Does the City maintain schedules to track amortization of debt related items, such as g/l on refunding and premium/discount on issuance, or have the auditors done this in the past?**
A: The auditors have maintained this.
23. Q: **Is the City planning on submitting a CAFR to the GFOA in the next three years?**
A: No.
24. Q: **Is a single audit expected to be necessary for 2014?**
A: Yes.

Approved by  _____

Joy Simonton, Purchasing Agent

By the signatures affixed below, Addendum No. 1 is hereby incorporated into and made a part of the above referenced solicitation.

ACKNOWLEDGED

Vendor

Authorized Signature

Date

RETURN ONE COPY SIGNED COPY OF THIS ADDENDUM TO THE PURCHASING OFFICE WITH YOUR SEALED PROPOSAL. FAILURE TO DO SO MAY AUTOMATICALLY DISQUALIFY YOUR RESPONSE FROM CONSIDERATION FOR AWARD.

February 12, 2013

To the Honorable Mayor and
Members of the City Council of the
City of Leander, Texas

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Leander, Texas for the year ended September 30, 2012, and have issued our report thereon dated February 12, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's expectations. The most sensitive estimates affecting the City's financial statements were:

We believe that the estimate of future useful lives of capital assets is a particularly sensitive accounting estimate. Management's estimate is based on knowledge and experience about past and current events and assumptions about future events.

The net pension obligation for TMRS is a significant sensitive estimate based on actuarial methods and assumptions provided by third party actuaries.

We believe that the allowance for uncollectible receivables is a sensitive accounting estimate. Management's estimate is based on knowledge and experience with past collectability of these receivable accounts.

We evaluated the key factors and assumptions used to develop these estimates and determined that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Disclosures related to the defined benefit retirement plan with TMRS- Information for this disclosure is provided by TMRS. Amounts are based on actuarial estimates provided by a third party.

Disclosure of Deposit and Investment Risks, Long-Term Debt and Joint Ventures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit. Management of the City did a commendable job in preparing for the audit. They prepared the requested schedules and documents in a timely manner and were available for questions at all times.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A schedule of these adjustments is attached. In addition, there were no uncorrected misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 12, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Mayor and the City Council of the City of Leander, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Daniel Kinard & Co., PC
Certified Public Accountants

City of Leander, Texas
Year Ended September 30, 2012
Audit Adjustments

Adjusting Journal Entries JE # 1

Adjust depreciation expense/accumulated depreciation.

90-00-1096	ACCUMULATED DEPRECIATION	19,793.00	
90-00-3400	RESERVE FOR INVESTMENT IN GFA		19,793.00
Total		<u>19,793.00</u>	<u>19,793.00</u>

Adjusting Journal Entries JE # 2

To adjust net pension obligation

05-01-5188	TMRS	5,067.00	
20-01-5188	TMRS	8,166.00	
05-00-2556	NET PENSION OBLIGATION		5,067.00
20-00-2556	NET PENSION OBLIGATION		8,166.00
Total		<u>13,233.00</u>	<u>13,233.00</u>

Adjusting Journal Entries JE # 3

To record amortization of BIC, Premiums and BIC

20-00-2335	BOND ISSUANCE PREMIUM	100,757.00	
20-00-2601	DEFERRED LOSS ON BOND REF	260,201.00	
27-01-6210	TRANSFER TO UTILITY FUND	18,804.00	
20-00-1095	ACCUMULATED AMORTIZATION		32,060.00
20-00-1132	DEFERRED BOND ISSUE COSTS		112,470.00
20-00-4900	TRANSFER IN		18,804.00
20-04-5905	AMORTIZATION EXPENSE		3,674.00
20-04-5915	BOND INSURANCE & ISSUANCE		193,950.00
27-01-5915	BOND ISSUANCE COST		18,804.00
Total		<u>379,762.00</u>	<u>379,762.00</u>

Adjusting Journal Entries JE # 4

To record Amortization of BIC - Golf Fund

05-53-5905	AMORTIZATION EXPENSE	5,719.00	
05-00-1095	ACCUMULATED AMORTIZATIONS		5,719.00
Total		<u>5,719.00</u>	<u>5,719.00</u>

Adjusting Journal Entries JE # 5

Correct principal lease payment for fire truck

95-00-1104	AMOUNT TO BE FOR LEASING	5,000.00	
95-00-2767	GCC - FIRE TRUCK CAPITAL LEASE		5,000.00
Total		<u>5,000.00</u>	<u>5,000.00</u>

Adjusting Journal Entries JE # 6

To adjust Property tax A/R, allowance and deferral.

01-00-1133	DEFERRED TAXES	4,712.00	
80-00-1133	DEFERRED TAXES	12,709.00	
01-00-1100	ALLOW FOR UNCOLLECTIBLE		2,922.00
01-00-1500	TAX RECEIVABLE - DELINQUENT		1,790.00
80-00-1100	ALLOW FOR UNCOLLECTABLE		2,606.00
80-00-1500	TAX RECEIVABLE - DELINQUENT		10,103.00
Total		<u>17,421.00</u>	<u>17,421.00</u>

Adjusting Journal Entries JE # 7

Prior period adjustment for PEG fees that had been recorded to revenue instead of deferred revenue

01-00-3100	FUND BALANCE UNASSIGNED	158,060.00	
01-00-2112	ACCOUNTS PAYABLE ADJUSTMENT		158,060.00
Total		<u>158,060.00</u>	<u>158,060.00</u>

City of Leander, Texas
Year Ended September 30, 2012
Audit Adjustments

Adjusting Journal Entries JE # 8

To book adjustments to Court Fees A/R, Allowance, and Deferred Revenue

01-00-1330	MUNICIPAL COURT RECEIVABLE	182,947.00	
01-00-2593	DEFERRED REVENUE-COURT	58,561.00	
01-00-1101	ALLOW DOUBTFUL ACCTS-COURT		58,561.00
01-00-2593	DEFERRED REVENUE-COURT		182,947.00
Total		<u>241,508.00</u>	<u>241,508.00</u>

Adjusting Journal Entries JE # 9

Adjust Utility and Garbage Allowance

01-00-1102	ALLOWANCE DOUBTFUL	14,495.00	
20-01-5906	BAD DEBT EXPENSE	122,039.00	
01-53-5906	BAD DEBT EXPENSE		14,495.00
20-00-1107	ALLOWANCE FOR UNCOLLECTIBLE		122,039.00
Total		<u>136,534.00</u>	<u>136,534.00</u>

Adjusting Journal Entries JE # 10

To reclass principal payment for 2012 Refunding Bonds

80-01-5827	PRINCIPAL 14,310M SERIES 2012	280,000.00	
80-01-5627	INTEREST 14,310M SERIES 2012		280,000.00
Total		<u>280,000.00</u>	<u>280,000.00</u>

Adjusting Journal Entries JE # 11

To adjust capital lease expense accounts

01-41-5460	MAJOR EQUIPMENT	29,705.00	
01-41-5465	MINOR EQUIPMENT	344.00	
01-41-5600	INTEREST CAPITAL LEASE	217.00	
01-42-5465	MINOR EQUIPMENT	11,457.00	
01-41-5405	AUTOMOBILES		12,018.00
01-41-5405	AUTOMOBILES		29,705.00
Total		<u>41,723.00</u>	<u>41,723.00</u>

Adjusting Journal Entries JE # 12

To adjust accrued interest on long-term debt

20-04-5600	INTEREST	184,571.00	
20-00-2220	ACCRUED INTEREST PAYABLE		184,571.00
Total		<u>184,571.00</u>	<u>184,571.00</u>

Adjusting Journal Entries JE # 13

To capitalize CIP for the Crystal Falls Elevated Storage

27-00-1126	CONSTRUCTION IN PROGRESS	31,014.00	
27-02-8328	CRYSTAL FALLS ELEVATED STORAGE		31,014.00
Total		<u>31,014.00</u>	<u>31,014.00</u>

Adjusting Journal Entries JE # 14

Adjust GFA to actual

90-00-1480	PLANTS & BUILDING	230,638.00	
90-00-1190	STREET & DRAINAGE IMPROVEMENTS		230,638.00
Total		<u>230,638.00</u>	<u>230,638.00</u>

Adjusting Journal Entries JE # 15

To reclass loss on refunding to other financing sources and uses

80-01-5972	PAYMENTS TO REFUNDING BONDS	125,782.00	
80-01-5972	PAYMENTS TO REFUNDING BONDS	180,923.00	
80-01-8972	PAYMENT TO REFUNDING		306,705.00
Total		<u>306,705.00</u>	<u>306,705.00</u>

February 11, 2014

To the Honorable Mayor and
Members of the City Council
City of Leander, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Leander, Texas (the City) for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 7, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the future useful lives of capital assets is based on knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the future useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension obligation for TMRS is based on actuarial methods and assumptions provided by third party actuaries. We evaluated the key factors and assumptions used to develop the net pension obligation for TMRS in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible receivables is based on knowledge and experience with past collectability of receivables. We evaluated the key factors and assumptions used to develop the allowance for uncollectible receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the TMRS defined benefit retirement plan in Note 8 to the financial statements. Information for this disclosure is provided by TMRS. The amounts are based on actuarial estimates provided by a third party.

The disclosure of deposit and investment risks in Note 3

The disclosure of long-term debt in Note 7

The disclosure of commitments in Note 9

The disclosure of joint venture in Note 11

The disclosure of prior period adjustments in Note 12

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Management of the City did a commendable job in preparing for the audit. They prepared the requested schedules and documents in a timely manner and were available for questions at all times.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. An attached schedule summarizes misstatements of the financial statements that were corrected by management.

An attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 11, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Mayor, the City Council, and management of the City of Leander, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Davis Kinard & Co., PC

Certified Public Accountants

City of Leander
Schedule of Corrected Misstatements
September 30, 2013

Account No.	Account Description	Debit	Credit
(1) To roll utility fund net position			
20-00-2335	Bond Issuance Premium	4,558	
20-00-2601	Deferred Loss on Bond Ref	302,698	
20-00-3100	Fund Balance Unassigned		307,256
		<u>307,256</u>	<u>307,256</u>
(2) To adjust municipal court receivable, allowance, and deferred revenue			
01-00-1330	Municipal Court Receivable	24,891	
01-00-2593	Deferred Revenue - Court	51,725	
01-00-1101	Allowance for Doubtful Accounts - Court		76,616
		<u>76,616</u>	<u>76,616</u>
(3) To record amortization of bond issuance costs, deferred loss, and bond issuance premiums			
20-00-2335	Bond Issuance Premium	139,788	
20-00-1095	Accumulated Amortization		32,060
20-00-2601	Deferred Loss on Bond Ref		99,741
20-04-5905	Amortization Expense		7,987
		<u>139,788</u>	<u>139,788</u>
(4) To adjust accrued interest on long-term debt			
20-00-2220	Accrued Interest Payable	493,583	
20-04-5600	Interest Expense	208,954	
20-00-3100	Fund Balance Unassigned		702,537
		<u>702,537</u>	<u>702,537</u>
(5) To adjust property tax receivable, allowance, and deferred revenue per confirmations			
01-00-1100	Allowance for Uncollectible Taxes	952	
01-00-1133	Deferred Taxes	25,723	
80-00-1100	Allowance for Uncollectible Taxes	4,926	
80-00-1133	Deferred Taxes	21,251	
01-00-1500	Tax Receivable - Delinquent		26,676
80-00-1500	Tax Receivable - Delinquent		26,176
		<u>52,852</u>	<u>52,852</u>
(6) To adjust net pension obligation			
05-01-5188	TMRS	4,581	
20-01-5188	TMRS	7,099	
05-00-2556	Net Pension Obligation		4,581
20-00-2556	Net Pension Obligation		7,099
		<u>11,680</u>	<u>11,680</u>
(7) To adjust capital lease expense			
01-41-5405	Automobiles	75,147	
01-50-5465	Minor Equipment	26,440	
01-41-7000	Vehicles		75,147
01-50-7305	Capital Lease - Fire Vehicles		26,440
		<u>101,587</u>	<u>101,587</u>

City of Leander
Schedule of Corrected Misstatements
September 30, 2013

Account No.	Account Description	Debit	Credit
(8) To post a prior period adjustment to accrue two years of interest expense on BCRWWS note payable			
20-00-3100	Fund Balance Unassigned	657,720	
20-00-1903	BCRWWS Joint Venture		657,720
		<u>657,720</u>	<u>657,720</u>
(9) To properly record net investment in BCRUA joint venture and remove related assets/debt from City's books			
20-00-1900	BCRUA Joint Venture	2,191,038	
20-00-2914	Bond Payable BCRUA	90,680,000	
20-04-9006	Transfer to BCRUA Debt Service	500,000	
20-04-9006	Transfer to BCRUA Debt Service	806,917	
20-00-1900	BCRUA Joint Venture		91,180,000
20-00-3100	Fund Balance Unassigned		2,997,955
		<u>94,177,955</u>	<u>94,177,955</u>

City of Leander, Texas
 Schedule of Uncorrected Misstatements
 September 30, 2013

Account No.	Account Description	Debit	Credit
(1) To book rebate of sales tax in correct fiscal year			
01-00-3100	Fund Balance Unassigned	54,230	
01-53-5747	Gateway Shopping Center Rebate	7,632	
01-00-2112	Accounts Payable Adjustment		61,862
		<u>61,862</u>	<u>61,862</u>
(2) To record accrued interest on CDs			
01-00-1110	Claim on Pooled Cash - General	18,287	
20-00-1110	Claim on Pooled Cash - Utilities	11,062	
01-00-4449	Interest Income		18,287
20-00-4449	Interest Income		11,062
		<u>29,349</u>	<u>29,349</u>

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.

FINANCIAL STATEMENTS AS OF

September 30, 2013

TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

AND

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Brushy Creek Regional Utility Authority, Inc.
Round Rock, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Brushy Creek Regional Utility Authority, Inc. (BCRUA), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the BCRUA'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.

INDEPENDENT AUDITORS' REPORT
(Continued)

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 BCRUA, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 5 through 11 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 BCRUA's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

As discussed in Note 6 to the financial statements, the Brushy Creek Regional Utility Authority, Inc. is dependent on the Cities of Cedar Park, Leander, and Round Rock, Texas for the continued funding of its operating activities. The Cities annually budget funds for operational expenses and debt service requirements of the Brushy Creek Regional Utility Authority, Inc.

INDEPENDENT AUDITORS' REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2014, on our consideration of the BCRUA'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 BCRUA's internal control over financial reporting and compliance.

Ernst & Young, LLP

January 5, 2014

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BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2013

ABOUT BCRUA

The Brushy Creek Regional Utility Authority (BCRUA) is a joint venture between the Cities of Cedar Park, Leander and Round Rock, Texas to design and construct a regional water system that will supply treated water to the three communities.

Cedar Park, Leander and Round Rock are among the fastest growing cities in Texas. Their combined service area population, based on current U.S. census estimates, is over 194,000. It is projected to grow to 609,000 by the year 2040.

This project provides facilities to access, treat and deliver water from Lake Travis to each partner city's customers. When completed, the project will meet the needs of Cedar Park and Round Rock to their ultimate build-out and the needs of Leander for at least the next 20 to 25 years.

The regional concept ensures the responsible use of resources and the least impact on both the environment and neighboring communities. Rather than three communities building three separate water supply projects—with three pipelines, three intakes, and three treatment plants, the BCRUA project streamlines the effort for minimum impact and maximum efficiency. The regional option affords the three cities the opportunity to realize "economy of scale" savings of 30 percent, or more than \$ 90 million.

The regional water treatment plant will have an ultimate capacity of 106 million gallons per day (mgd) and will be built in three phases to better match the capacity with near-term needs. The initial Phase 1 was substantially completed in July 2012 and includes the full sized 106 mgd raw water and treated water pipelines, and a 17 mgd water treatment plant, readily expandable to 42 mgd. Phase 1 operates with an interim 30 mgd floating barge intake on Lake Travis, but a permanent deep water intake with ultimate capacity will be required as part of Phase 2.

Plant operations officially began July 1, 2012. Operations for the project have been divided into three categories: plant staffing; General Manager/administrative support; and, financial support/accounting services, with each city taking responsibility for one of the categories. Plant staffing is provided by Leander consisting of one plant superintendent and three plant operators. The General Manager and administrative support are provided by Round Rock. Finance and Accounting is provided by Cedar Park. While each city maintains responsibility for their own category, the Operations Committee (composed of engineering and finance staff from each city) provides oversight of each city's contribution in order to ensure appropriate controls are in place.

While substantial completion and start-up of the Phase 1 Project occurred in 2012, final project close-out has been delayed, due to several construction related issues that became evident late in the year. The BCRUA has been working with the construction contractor and design engineers to analyze the issues, and make the necessary corrections. Pending elimination of all identified defects, the BCRUA is withholding project construction retainage. Final completion and project close-out is anticipated in early/mid 2014.

With substantial completion of the Phase I Project in 2012, staff began working on planning, environmental studies and real-estate acquisition for Phase II. In 2013, two sites were identified for the permanent deep water intake structure (in the Village of Volente), and the permanent raw water pumping station (in Sandy Creek Park). Purchase negotiations for both parcels are underway and progressing toward completion in 2014. Planning level design of the overall Phase 2 project also progressed during the year, and formal authorization to begin predesign of this multi-year construction project is anticipated to occur in 2014.

**BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

September 30, 2013

The BCRUA Board of Directors is composed of six members, two from each of the city councils of the partnering cities. A General Manager directs the day to day business of the BCRUA, and a Plant Superintendent oversees the operation of the system. The previous General Manager, Chris Lippe, retired in December, 2012. The Board then initiated a national search, and in March, 2013, selected Tom Gallier as the new General Manager.

What follows is a discussion and analysis of BCRUA's financial performance for the fiscal year ended September 30, 2013. Please read it in conjunction with the Independent Auditors' Report on page 1 and the BCRUA's Basic Financial Statements which begin on page 14.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) notes to the financial statements. This report also contains combining statements as supplementary information in addition to the basic financial statements.

The basic financial statements include the Statement of Net Position (pages 14 - 15), the Statement of Revenues, Expenses, and Changes in Net Position (page 16) and the Statement of Cash Flows (page 17). The BCRUA operates as an enterprise activity and consists of one proprietary fund.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the basic financial statements.

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to provide readers with a broad overview of the BCRUA's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the BCRUA's assets and liabilities, with the difference between the two reported as net position. The BCRUA's net position provides one measure of the BCRUA's financial health, or financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the BCRUA is improving or deteriorating. To fully assess the overall health of the BCRUA, however, you should consider nonfinancial factors as well, such as the condition of assets, and the total economic impact of the entity on the Cities of Cedar Park, Leander and Round Rock, Texas.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the BCRUA's net position changed during the most recent fiscal 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents cash receipts, cash disbursements and net changes in cash resulting from operating, financing and investing activities. This statement provides information such as where cash originated, how it was used and the net change in cash balances during the reporting period.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
September 30, 2013

NOTES TO THE FINANCIAL STATEMENTS

The notes provide required disclosures and other additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements present information about the accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 19 through 28 of this report.

SUPPLEMENTARY INFORMATION

The combining statements are presented for purposes of additional analysis and to provide an overview of the financial position and results of operations related to each partner City. The combining statements can be found on pages 30 through 32 of this report.

FINANCIAL ANALYSIS

FINANCIAL HIGHLIGHTS

- The BCRUA's net position decreased by \$ 12,210,756 as a result of current year operations.
- Partner city contributions to net position for the year ended September 30, 2013 were \$ 10,697,987.
- Total net position at September 30, 2013 was \$ 16,929,047, a decrease of \$ 1,512,769 from September 30, 2012.
- Total capital assets, net of depreciation, were \$ 153,408,693 as of September 30, 2013. This is a decrease of \$ 1,902,767 from the prior year and reflects the completion of Phase 1 of the project and the start up cost for Phase 2.
- Total long-term liabilities were \$ 176,025,000 and \$ 178,605,000 as of September 30, 2013 and 2012, respectively. Principal payments on this debt began in fiscal year 2012.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
September 30, 2013

FINANCIAL ANALYSIS (continued)

FINANCIAL HIGHLIGHTS (continued)

The following condensed financial statements (Tables I and II) provide key financial data as of and for the years ended September 30, 2013 and 2012.

Table I

NET POSITION

	2013	2012
Current assets	\$ 19,646,177	\$ 15,027,661
Restricted assets	26,208,772	32,435,783
Capital assets, net	153,566,942	155,311,460
Other	770,872	801,913
Total assets	200,192,763	203,576,817
Current liabilities	3,130,752	3,151,729
Current liabilities payable from restricted assets	3,949,716	3,378,272
Noncurrent liabilities	176,025,000	178,605,000
Total liabilities	183,105,468	185,135,001
Net position:		
Unrestricted	17,087,295	18,441,816
Total net position	\$ 17,087,295	\$ 18,441,816

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
September 30, 2013

FINANCIAL ANALYSIS (continued)

FINANCIAL HIGHLIGHTS (continued)

Table II

CHANGE IN NET POSITION

	2013	2012
Operating Revenues	\$ 985,682	\$ 892,950
Operating Expenses		
Interest expense	8,336,059	-
Depreciation	3,854,964	973,240
Personnel	393,893	91,801
Power	366,010	104,844
Chemicals	100,642	8,925
Office supplies	33,210	34,150
Accounting services	32,883	3,412
Repairs and maintenance	25,916	65,125
Insurance	25,658	-
Audit expense	23,500	24,398
Investment consultant	20,000	23,500
Miscellaneous expense	14,985	26,500
Legal fees	14,268	52
Bank service charges	5,942	551
Contract services	2,368	3,192
Plant dedication	-	12,395
Total Operating Expenses	<u>13,250,298</u>	<u>1,372,085</u>
Operating Loss	(12,264,616)	(479,135)
Other Income	212,108	7,901
Change in net position	<u>(12,052,508)</u>	<u>(471,234)</u>
Net position - beginning of year	18,441,816	10,363,106
Capital contributions from partner cities	10,697,987	9,654,944
Capital distributions to partner cities	-	<u>(1,105,000)</u>
Net position - end of year	<u>\$ 17,087,295</u>	<u>\$ 18,441,816</u>

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
September 30, 2013

FINANCIAL ANALYSIS (continued)

CAPITAL ASSETS

Capital assets at September 30, 2013 amounted to \$ 153,408,693 and consisted of land, easements, buildings, improvements, infrastructure and construction in progress. Construction in progress is made up of costs attributed to Phase 2 of the BCRUA Project and consists primarily of engineering costs. The cost of constructing Phase 1 was closed out of construction in progress during fiscal year 2012 for a total cost of \$ 145,800,187. Capitalized interest of \$ 25,347,535 (net of investment income of \$ 2,075,409) was included in the cost of Phase 1.

The construction phasing and estimated costs for the project are planned as follows:

Phase 1:

- Construction of an interim, floating intake structure near Cedar Park's existing plant on the Sandy Creek arm of Lake Travis
- New raw water pipeline within right-of-way along Trails End Road
- New treatment plant to serve all three cities with an initial capacity of 17 million gallons per day (mgd) and a final Phase 1 capacity of 42 mgd
- Treated water transmission pipeline across the north side of Cedar Park
- Construction began in late 2009 and was substantially complete in July 2012
- Cost to complete the project is approximately \$ 755,000
- The full retainage amount of approximately \$ 2.35 million is also being withheld, pending resolution of outstanding construction issued and final project close-out

Phase 2:

Phase 2a:

- Permanent, deep-water intake structure on Lake Travis and raw water pipeline connecting the intake to the Phase 1 pipeline
- Construction estimated to begin as late as 2016, depending on lake levels
- Cost estimated at approximately \$ 160 million

Phase 2b:

- Expansion of the water treatment plant to 84 mgd
- Cost estimated at approximately \$ 41 million

Total estimated cost for Phase 2: \$ 201 million

Phase 3:

- Final expansion of water treatment plant to 106 mgd.
- Estimated cost: \$ 29 million

Total cost: The total project cost is estimated at \$ 365 million

RESTRICTED ASSETS

Restricted assets at September 30, 2013 were \$ 26,208,772, a decrease from the September 30, 2012 balance of \$ 32,435,783. Restricted assets consist of debt service, escrow and reserve funds arising from the proceeds of long-term debt. The decrease reflects the release of escrow funds to finance current construction and investment purchases.

**BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

September 30, 2013

FINANCIAL ANALYSIS (continued)

LONG-TERM DEBT

In 2009, the BCRUA issued three series of contract revenue bonds totaling \$ 182,020,000 for construction and other costs related to Phase 1 of the BCRUA Project. Additional information on long-term debt can be found in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economy in the local area continues to grow, and the service areas which will be supplied by the BCRUA at project completion are positioned for continued customer growth. The BCRUA's board adopted an administrative operating budget for fiscal year 2013 in the amount of \$ 1,596,000, an additional annual reserve of \$ 336,000 in 2013 and a debt service budget for fiscal year 2013 in the amount of \$ 10,453,000.

CONTACTING THE BCRUA'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens of the partner cities, customers and creditors with a general overview of the BCRUA's finances and to show the BCRUA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the BCRUA at 450 Cypress Creek, Bldg 1, Cedar Park, Texas 78613.

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BASIC FINANCIAL STATEMENTS

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
STATEMENT OF NET POSITION
September 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,200,985
Investments	7,738,891
Receivables, net:	
Accounts	447,161
Accrued interest	12,515
Due from other funds	246,625
	19,646,177
Total current assets	19,646,177

Noncurrent assets:

Restricted cash and cash equivalents and investments:	
Debt Service	1,269,460
Escrow	24,873,739
Reserve	65,573
Deferred charges, net of accumulated amortization of \$ 131,928	770,872
Capital assets:	
Land, easements and construction in progress	12,344,158
Capital assets being depreciated, net of accumulated depreciation of \$ 4,837,209	141,222,784
	180,546,586
Total noncurrent assets	180,546,586

Total Assets	\$ 200,192,763
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The accompanying notes are an integral part of the financial statements.

LIABILITIES

Current liabilities:

Accounts payable	\$ 253,396
Retainage payable	2,345,205
Due to partner cities	285,526
Due to other funds	<u>246,625</u>

Total current liabilities 3,130,752

Current liabilities payable from restricted assets:

Current portion of revenue bonds payable	2,580,000
Accrued interest	<u>1,369,716</u>

Total current liabilities payable from restricted assets 3,949,716

Noncurrent liabilities:

Revenue bonds payable	<u>176,025,000</u>
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Total noncurrent liabilities 176,025,000

Total Liabilities 183,105,468

NET POSITION

Net position:

Unrestricted	<u>17,087,295</u>
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Total Net Position \$ 17,087,295

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended September 30, 2013

Operating Revenues		\$ 985,682
Operating Expenses		
Interest expense	\$ 8,336,059	
Depreciation	3,854,964	
Personnel	393,893	
Power	366,010	
Chemicals	100,642	
Office supplies	33,210	
Accounting services	32,883	
Repairs and maintenance	25,916	
Insurance	25,658	
Audit expense	23,500	
Investment consultant	20,000	
Miscellaneous expense	14,985	
Legal fees	14,268	
Bank service charges	5,942	
Contract services	2,368	
Total Operating Expenses		13,250,298
Operating Loss		(12,264,616)
Other Income		212,108
Change in net position		(12,052,508)
Net position - beginning of year		18,441,816
Capital contributions from partner cities		10,697,987
Net position - end of year		\$ 17,087,295

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

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2013

Cash Flows from Operating Activities	
Service revenues received from partner cities	\$ 1,061,479
Payments to suppliers for goods and services	(9,310,061)
Net cash provided by operating activities	<u>(8,242,595)</u>
Cash Flows from Capital and Related Financing Activities	
Construction of capital assets	5,636,715
Interest payments	(8,453,402)
Capital contributions from partner cities	<u>10,697,987</u>
Net cash used by capital and related financing activities	7,881,300
Cash Flows from Investing Activities	
Purchase of investments	(6,166,458)
Proceeds from sales and maturities of investments	12,632,545
Principal payments on bonds	(2,000,000)
Interest income	<u>206,121</u>
Net cash provided by investing activities	<u>4,672,208</u>
Net decrease in cash and cash equivalents	4,310,913
Cash and cash equivalents - Beginning of Year	<u>6,890,072</u>
Cash and cash equivalents - End of Year	<u>\$ 11,200,985</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets	
Cash and cash equivalents	\$ 11,200,985
Restricted cash and cash equivalents and investments	26,208,771
Less restricted investments	<u>(26,208,771)</u>
Total cash and cash equivalents	<u>\$ 11,200,985</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (12,052,508)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Interest income to investing activities	(206,121)
Amortization-bond issuance costs	31,041
Depreciation	3,854,964
Increase in accrued interest receivable	53,312
Decrease in accounts payable	(200,253)
Increase in due to partner cities	285,526
Accrued interest payable	<u>(8,556)</u>
Total Adjustments	<u>3,809,913</u>
Net cash used by operating activities	<u>\$ (8,242,595)</u>

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

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BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

1. Nature of Activities

Brushy Creek Regional Utility Authority, Inc. (the BCRUA) was incorporated in Texas in July 2007 as a local government corporation pursuant to Subchapter D of Chapter 431, Texas Transportation Code. The BCRUA was organized by the Cities of Cedar Park, Leander and Round Rock, Texas (the cities) for the purpose of providing an efficient vehicle for the financing, construction, acquisition, ownership, maintenance, and operation of a regional water and wastewater collection, transmission, treatment, and distribution system on behalf of the cities in performance of their governmental functions.

2. Summary of Significant Accounting Policies

The financial statements of the BCRUA have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

The BCRUA is a joint venture between the Cities of Cedar Park, Leander and Round Rock, Texas. The BCRUA operates as an enterprise activity. These financial statements present only the BCRUA activities and are not intended to present the financial position, results of operations or cash flows of any of the Cities of Cedar Park, Leander and Round Rock, Texas.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the BCRUA (a proprietary fund) are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities (whether current or noncurrent) are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net assets. Revenues are recorded when earned and become measurable and expenses are recorded when a liability is incurred and measurable, regardless of the timing of related cash flows.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund follows GAAP prescribed by GASB and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the BCRUA accounts for its proprietary fund as prescribed by the GASB.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

2. Summary of Significant Accounting Policies (continued)

Implementation of New Accounting Principles

For the fiscal year ended September 30, 2013, the Governmental Accounting Standards Board issued a new pronouncement that the BCRUA has reviewed for application to their accounting and reporting. GASB Statement No. 63, Financial Reporting of Deferred Outflow of Resources, and Net Position, is effective for periods beginning after December 15, 2011. The components of net position were renamed to reflect the requirements of this statement.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include demand deposits, investments with investment pools, and other short-term liquid investments with an original maturity of three months or less. Cash and cash equivalents from restricted assets are also included.

Restricted Assets

Restricted funds consist of escrow funds derived from bond proceeds, debt service funds, reserve funds, and revenues that have been designated for specific purposes by the Board, or other funds with legal or contractual constraints. When both restricted and unrestricted resources are available for use, it is BCRUA's policy to use restricted resources first, then unrestricted resources as they are needed.

Bond Issuance Costs

Bond issuance costs are amortized on a straight-line basis over the period of the related debt maturities.

Capital Assets

Capital assets are stated at historical cost. To the extent construction is performed by the BCRUA, the cost includes certain general and administrative expenses. Maintenance and repairs are charged to operations as incurred. Improvements and betterments, which extend the useful lives of assets, are capitalized. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5-40 years. When capital assets are retired or otherwise disposed of, a gain or loss on disposal of assets is recognized.

Interest is normally capitalized on construction costs. The amount of interest cost capitalized for assets constructed with tax-exempt borrowings is equal to the cost of borrowing, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings. However, for the current year, interest costs totaling \$ 8,336,059 were expensed rather than capitalized.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

3. Cash and Cash Equivalents and Investments

All BCRUA cash is deposited in accounts that receive interest credit or is invested in permissible securities pursuant to the BCRUA's investment policy. Investments are stated at fair value based on quoted market prices provided by the custodian.

Deposits

At September 30, 2013, the carrying amount of the BCRUA's deposits was \$ 6,913,918 and the bank balance was \$ 5,757,011. The BCRUA's cash deposits at September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the BCRUA's agent bank in the BCRUA's name.

Investments

All investments are presented at fair value. The fair value of the positions in state investment pools is the same as the value of the pool shares.

Cash and cash equivalents and investments are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Construction funds-		
Cash in banks	\$ 6,913,918	\$ 6,913,918
Municipal coupon securities	1,536,071	1,536,060
Investment in governmental pool	4,287,149	4,287,149
Debt service- investment in governmental pool	1,269,459	1,269,459
Escrow Funds-		
Municipal coupon securities	880,771	882,517
Investment in government pool	24,086,522	24,086,522
Reserve fund-		
Municipal coupon securities	6,166,458	6,124,050
Investment in government pool	48,973	48,973
Total cash and cash equivalents and investments	<u>\$ 45,189,321</u>	<u>\$ 45,148,648</u>

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

3. Cash and Cash Equivalents and Investments (continued)

A reconciliation of cash and cash equivalents and investments to the presentation on the Statement of Net Position is as follows:

Statement of Net Position presentation:	
Cash and cash equivalents	\$ 11,200,985
Investments	7,738,891
Restricted cash and cash equivalents and investments:	
Debt Service	1,269,460
Escrow	24,873,739
Reserve	65,573
	<hr/>
Total cash and cash equivalents and investments	<u>\$ 45,148,648</u>

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the BCRUA to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the BCRUA to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the BCRUA to have independent auditors perform test procedures related to investment practices as provided by the Act. The BCRUA is in substantial compliance with the requirements of the Act.

Additional Contractual Provisions governing deposits and investments are as follows:

The funds of the BCRUA must be deposited and invested under the terms of a contract, the contents of which include securities for safekeeping and trust with the BCRUA's agent bank in an amount sufficient to protect BCRUA funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

3. Cash and Cash Equivalents and Investments (continued)

Policies Governing Deposits and Investments

1. Foreign Currency Risk – The BCRUA's deposits and investments are not exposed to foreign currency risk.
2. Custodial Credit Risk – To control custody and safekeeping risk State law and the Brushy Creek Regional Utility Authority's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the BCRUA and held in the City's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of September 30, 2013:

- The portfolio contained no fully collateralized or FDIC insured certificates of deposits. All pledged collateral was held by an independent institution outside the bank's holding company.
 - The portfolio contained no repurchase agreements.
 - The portfolio contained 13.1% in demand deposit accounts that are fully insured by the FDIC.
3. Interest Rate Risk – In order to limit interest and market rate risk from changes in interest rates, the Brushy Creek Regional Utility Authority's adopted Investment Policy sets a maximum stated maturity limit of two years for Operating Funds and three years for Construction funds. The weighted average maturity (WAM) of the total Operating Funds portfolio is restricted to a maximum of twelve months and compared to the 1 year Treasury Bill. There is no maximum weighted average maturity (WAM) for Construction funds.

As of September 30, 2013, the portfolio contained:

- No holding in the portfolio had a stated maturity date beyond 440 days.
- The dollar weighted average of the total portfolio was 71 days.

As of September 30, 2013, the portfolio contained 19.4% in structured (callable) notes which would have been impacted by interest rate risk.

4. Credit Risk – A primary stated objective of the Brushy Creek Regional Utility Authority's adopted Investment Policy is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy includes only time and demand deposits, obligations of states and their subdivisions, repurchase agreements and AAA rated SEC registered money market mutual funds. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the US Government, its agencies or instrumentalities.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

3. Cash and Cash Equivalents and Investments (continued)

Policies Governing Deposits and Investments (continued)

4. Credit Risk (continued)

State law and the Brushy Creek Regional Utility Authority's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD's) to those banks doing business in the State of Texas and further requires full insurance or collateralization from these depositories (banks only). Certificates of deposit are limited to a stated maturity of one year. Collateral is required at a 102% margin with securities priced at market on a daily basis as a contractual responsibility of the bank. Collateral is restricted to obligations of the US Government, its agencies or instrumentalities or direct obligations of any state, its subdivisions or agencies rated at least A, or equivalent, as to investment quality by two nationally recognized statistical rating agencies. Independent safekeeping is required outside the bank holding company with monthly reporting.

Repurchase agreements are limited to those with defined termination dates with a primary dealer (as defined by the Federal Reserve) and require an industry standard written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed one year to stated maturity with the exception of flex repurchase agreements with a stated termination date not to exceed the planned completion date of the project(s).

The state law and the City's adopted Investment Policy restricts investment in AAA rated SEC registered mutual funds to money market mutual funds striving to maintain a \$1 net asset value and defined by State law.

Local government investment pools in Texas are required to be rated AAA, or equivalent by at least one nationally recognized rating agency. The BCRUA Policy is restricted to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

As of September 30, 2013:

- Municipal obligations represented 19.4% of the total portfolio.
- Fully insured or collateralized money market accounts represented 13.1% of the total portfolio.
- Investment in a AAA-rated local government investment pool (TexSTAR) represented 67.5% of the total portfolio, and \$ 29,692,103 was invested in TexSTAR as of September 30, 2013.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

3. Cash and Cash Equivalents and Investments (continued)

Policies Governing Deposits and Investments (continued)

5. Concentration Risk - The Brushy Creek Regional Utility Authority recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The City's adopted Investment Policy establishes diversification as a major objective of the investment program and sets diversification limits for all authorized investment types which are monitored on at least a monthly basis. Diversification limits are set by Policy as:

U. S. Obligations	80%
U. S. Agencies/Instrumentalities	75%
State and Local Obligations	50%
Certificates of Deposit	40%
In any one bank	10%
Repurchase Agreements	50%
With any one dealer	20%
FlexRepo with CIP Funds	100%
LGIP	100%
Ownership in pool	10%
Money Market Mutual Funds	100%
Ownership in fund	20%

As of September 30, 2013,

- Holdings in one local government investment pool represented 67.5% of the total portfolio.
- Holdings in State and Local Obligations represented 19.4% of the total portfolio.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

4. Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land and easements	\$ 8,893,325	\$ -	\$ -	\$ 8,893,325
Construction in Progress	1,375,470	2,075,363	-	3,450,833
Total capital assets, not being depreciated	<u>10,268,795</u>	<u>2,075,363</u>	<u>-</u>	<u>12,344,158</u>
Capital assets, being depreciated:				
Buildings and improvements	68,188,731	-	-	68,188,731
Infrastructure	77,611,456	-	-	77,611,456
Equipment	224,723	35,083	-	259,806
Total capital assets, being depreciated	<u>146,024,910</u>	<u>35,083</u>	<u>-</u>	<u>146,059,993</u>
Less accumulated depreciation for:				
Buildings and improvements	426,180	1,704,718	-	2,130,898
Infrastructure	529,585	2,118,343	-	2,647,928
Equipment	26,480	31,903	-	58,383
Total accumulated depreciation	<u>982,245</u>	<u>3,854,964</u>	<u>-</u>	<u>4,837,209</u>
Total capital assets, being depreciated, net	<u>145,042,665</u>	<u>(3,819,881)</u>	<u>-</u>	<u>141,222,784</u>
Total capital assets, net	<u>\$155,311,460</u>	<u>\$(1,744,518)</u>	<u>\$ -</u>	<u>\$153,566,942</u>

5. Long-Term Debt

During 2009, the BCRUA issued contract revenue bonds dated July 6, 2009, totaling \$ 182,020,000. The bonds mature serially beginning August 1, 2012 through August 1, 2038, with coupon rates ranging from 2.254% to 5.084%. Proceeds from the bond issue are restricted for the construction and equipment of the first phase of the BCRUA Regional Water Treatment and Distribution Project. The bonds were issued in three series, one series for each partner city's share of expected project costs. Each bond series is payable solely from and secured, in part, by an assignment of the bond payments made under the Master Contract Agreement dated September 2, 2008 by and between each city. Each city is solely responsible for bond payments on its series of bonds. No city has any liability or responsibility for any bond payment on a series of bonds issued for another city.

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

5. Long-Term Debt (continued)

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Series 2009 Contract Revenue Bonds					
City of Cedar Park	\$ 24,715,000	\$ -	\$ (280,000)	\$ 24,435,000	\$ 295,000
City of Leander	91,180,000	-	(500,000)	90,680,000	1,000,000
City of Round Rock	64,710,000	-	(1,220,000)	63,490,000	1,285,000
Total Bonds Payable	\$180,605,000	\$ -	\$(2,000,000)	\$178,605,000	\$ 2,580,000

Debt service requirements are as follows:

Year Ending September 30	Bonds		Total Requirements
	Principal	Interest	
2014	\$ 2,580,000	\$ 8,400,922	\$ 10,980,922
2015	3,140,000	8,327,031	11,467,031
2016	3,580,000	8,229,880	11,809,880
2017	4,270,000	8,111,596	12,381,596
2018	4,490,000	7,961,976	12,451,976
2019-2023	26,255,000	36,968,129	63,223,129
2024-2028	33,920,000	30,472,051	64,392,051
2029-2033	43,800,000	21,247,217	65,047,217
2034-2038	56,570,000	8,922,674	65,492,674
	\$ 178,605,000	\$ 138,641,476	\$ 317,246,476

Interest is capitalized on construction costs until completion of the project. The amount of interest cost capitalized for assets constructed with tax-exempt borrowings is equal to the cost of borrowing, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. As of September 30, 2013, the amount of capitalized interest cost included in construction in progress was \$ 33,683,594 (net of investment income of \$ 2,075,409).

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2013

6. Economic Dependency

The BCRUA is dependent on the Cities of Cedar Park, Leander and Round Rock, Texas for the continued funding of its operating activities. The cities annually budget funds for operational and overhead expenses and debt service requirements in accordance with the Master Contract Agreement and the System Operating Agreement between the cities. Fixed operations and maintenance expenses are allocated among the cities based upon each city's reserved capacity in the BCRUA Project components, and variable expenses are allocated based upon the volume of treated water delivered to each city in relation to the total delivered volume. Overhead expenses are paid by each city based upon certain formulas and reserve capacities in the BCRUA Project and/or the quantity of treated water actually delivered to each city. Each city is responsible for bond principal and interest payments due on the bond series issued by BCRUA for each respective city.

7. Contingency

A contract dispute between the BCRUA and the general contractor arose during the inspection of Phase I construction concerning defects in construction of the plant. The BCRUA has retained legal counsel who specializes in construction contract disputes. Furthermore, the BCRUA has withheld payment of retainage due to the general contractor in the amount of \$ 2.35 million until all identified issues have been rectified. Management expects resolution of the dispute before the summer of 2014 and does not expect the dispute to materially affect the BCRUA's financial statements.

8. Subsequent Events

The BCRUA has evaluated subsequent events after the balance sheet date of September 30, 2013 through January 5, 2014, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
COMBINING STATEMENTS OF NET POSITION
September 30, 2013

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,898,094	\$ 5,132,513	\$ 4,170,378	\$ 11,200,985
Investments	264,984	6,890,001	583,906	7,738,891
Receivables, net:				
Accounts	70,948	237,517	138,696	447,161
Accrued interest	1,582	4,443	6,490	12,515
Due from other funds	-	182,148	64,477	246,625
Total current assets	2,235,608	12,446,622	4,963,947	19,646,177
Noncurrent assets:				
Restricted cash and cash equivalents and investments:				
Debt Service	212,917	711	1,055,832	1,269,460
Escrow	3,918,389	7,894,783	13,060,567	24,873,739
Reserve	-	48,973	16,600	65,573
Deferred charges, net of accumulated amortization of \$ 131,928	127,653	379,000	264,219	770,872
Capital assets:				
Land, easements and construction in progress	1,553,943	6,641,025	4,149,190	12,344,158
Capital assets being depreciated, net of accumulated depreciation of \$ 4,837,209	21,248,774	67,533,550	52,440,460	141,222,784
Total noncurrent assets	27,061,676	82,498,042	70,986,868	180,546,586
Total Assets	\$29,297,284	\$94,944,664	\$75,950,815	\$200,192,763

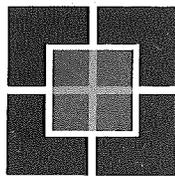
See independent auditors' report.

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Total</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 108,767	\$ 104,058	\$ 40,571	\$ 253,396
Retainage payable	431,987	1,103,653	809,565	2,345,205
Due to partner cities	21,958	169,334	94,234	285,526
Due to other funds	117,379	-	129,246	246,625
Total current liabilities	680,091	1,377,045	1,073,616	3,130,752
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	295,000	1,000,000	1,285,000	2,580,000
Accrued interest	188,402	696,581	484,733	1,369,716
Total current liabilities payable from restricted assets	483,402	1,696,581	1,769,733	3,949,716
Noncurrent liabilities:				
Revenue bonds payable	24,140,000	89,680,000	62,205,000	176,025,000
Total noncurrent liabilities	24,140,000	89,680,000	62,205,000	176,025,000
Total Liabilities	25,303,493	92,753,626	65,048,349	183,105,468
NET POSITION				
Net position:				
Unrestricted	3,993,791	2,191,038	10,902,466	17,087,295
Total Net Position	\$ 3,993,791	\$ 2,191,038	\$ 10,902,466	\$ 17,087,295

BRUSHY CREEK REGIONAL UTILITY AUTHORITY, INC.
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended September 30, 2013

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Total</u>
Operating Revenues	\$ 541,627	\$ 417,465	\$ 26,590	\$ 985,682
Operating Expenses				
Interest expense	1,247,908	3,934,620	3,153,531	8,336,059
Depreciation	603,152	1,816,362	1,435,450	3,854,964
Personnel	165,898	184,413	43,582	393,893
Power	195,007	171,003	-	366,010
Chemicals	53,682	46,960	-	100,642
Office supplies	8,056	15,631	9,523	33,210
Accounting services	13,376	15,402	4,105	32,883
Repairs and maintenance	8,522	9,332	8,062	25,916
Insurance	3,841	12,111	9,706	25,658
Audit expense	3,518	11,092	8,890	23,500
Investment consultant	2,994	9,440	7,566	20,000
Miscellaneous expense	3,255	7,061	4,669	14,985
Legal fees	1,404	6,764	6,100	14,268
Bank service charges	1,796	2,103	2,043	5,942
Contract services	1,263	1,089	16	2,368
Total Operating Expenses	<u>2,313,672</u>	<u>6,243,383</u>	<u>4,693,243</u>	<u>13,250,298</u>
Operating Income (Loss)	(1,772,045)	(5,825,918)	(4,666,653)	(12,264,616)
Other Income	38,467	76,304	97,337	212,108
Change in net assets	<u>(1,733,578)</u>	<u>(5,749,614)</u>	<u>(4,569,316)</u>	<u>(12,052,508)</u>
Net position - beginning of year	4,197,120	2,997,955	11,246,741	18,441,816
Capital contributions from partner cities	1,530,249	4,942,697	4,225,041	10,697,987
Net position - end of year	<u>\$ 3,993,791</u>	<u>\$ 2,191,038</u>	<u>\$ 10,902,466</u>	<u>\$ 17,087,295</u>

See independent auditors' report.



BROCKWAY
GERSBACH
FRANKLIN &
NIEMEIER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Brushy Creek Regional Utility Authority, Inc.
Round Rock, 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 of Brushy Creek Regional Utility Authority, Inc. (BCRUA) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise BCRUA's basic financial statements, and have issued our report thereon dated January 5, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BCRUA'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.

Ernst & Young, LLP

January 5, 2014