

Annual Financial Report

For the Year Ended August 31, 2010

Prepared for:

**Public Utility Commission of Texas
COMPTROLLER OF PUBLIC ACCOUNTS**

Rupert & Associates, P.C.

10616 Manchaca Rd.

Austin, TX 78748

**PUBLIC UTILITY
COMMISSION OF TEXAS**

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2010

Paula Mueller
Executive Director

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(None Required – Extracted Agency)

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November 10, 2010

Honorable Rick Perry, Governor
Honorable Susan Combs, Texas Comptroller
John O'Brien, Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Public Utility Commission of Texas for the year ended August 31, 2010, in compliance with TEX. GOV'T CODE ANN §2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Jim Albright, Director of Fiscal & Information Services, at (512) 936-7095.

Sincerely,

Paula Mueller
Executive Director

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Note 1: Summary of Significant Accounting Policies

Entity

The Public Utility Commission is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

The Commission serves the state by regulating public telephone and electric utilities operating within the state. The mission is to protect customers, foster competition, and promote high-quality infrastructure.

The Commission administers the Texas Universal Service Fund (TUSF) pursuant to Chapter 56 of the Texas Utilities Code. The TUSF was created by the Texas Legislature to fund programs that assist low-income customers, high-cost rural areas, and persons with disabilities in having access to the telecommunication network. The TUSF is an operating account held outside the State Treasury and is funded by a uniform statewide assessment on telecommunications providers that have access to the customer base in Texas. The Commission has hired a Contractor to administer the daily operation of the fund, i.e., to collect the assessments from telecommunications providers and make the disbursements to eligible service providers pursuant to rules adopted and enforced by the Commission. Pursuant to statutes, state agencies that implement the programs funded by the TUSF are reimbursed for the cost of implementation.

The Public Utility Commission includes within this report all components as determined by an analysis of their relationship to the Commission as listed below (if any).

Due to statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

Blended Component Units: No component units have been identified which should have been blended into an appropriated fund.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

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Governmental Fund Types & Government-wide Adjustment Fund Types

General Fund: The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all the financial resources except those accounted for in other funds.

Special Revenue Fund: Special revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

Capital Asset Adjustment Fund Type: Capital Asset Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

Long-Term Liabilities Adjustment Fund Type: Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' debt from modified accrual to full accrual.

Other Adjustments Fund Type: Other Adjustments fund type will be used to convert all other governmental fund types' activity from modified accrual to full accrual.

Fiduciary Fund Types

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

Agency Funds: Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual method basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on

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the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, and long-term claims and judgments and full accrual revenues and expenses. The activity will be recognized in these fund types.

Budgets and Budgetary Accounting

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and Fund Equity

Assets

Cash & Cash Equivalents: Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Restricted Assets: Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Inventories and Prepaid Items: Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. Inventories for governmental fund types are the purchase method accounting. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. The cost of these items is expensed when the items are consumed.

Capital Assets: Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Road and highway

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infrastructure is reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary fund or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

Other Receivables: Other receivables include year-end revenue accruals not included in any other receivable category. This account can appear in governmental and proprietary fund types.

Liabilities

Accounts Payable: Accounts Payable represents the liability for the value for assets or services received at the balance sheet date for which payment is pending.

Other Payables: Other payables are the accrual at year-end of expenditure transactions not included in any other payable descriptions. Other payables may be included in either the governmental or proprietary fund types.

Employees' Compensable Leave Balances: Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by the covered employee. Liabilities are reported separately as either current or non-current in the statement of net assets.

Fund Balance / Net Assets

The difference between fund assets and liabilities is 'Net Assets' on the government-wide, proprietary and fiduciary fund statements, and the 'Fund Balance' is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance: Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

Reserved for Encumbrances: This represents commitments of the value of contracts awarded or assets ordered prior to year-end, but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Unreserved / Undesignated: Other represents the unappropriated balance at year-end.

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Restricted Net Assets: Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutionally provisions or enabling legislation.

Unrestricted Net Assets: Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

Interfund Transactions and Balances

The agency has the following types of transactions among funds:

Transfers: Legally required transfers that are reported when incurred as 'Transfers In' by the recipient fund and as 'Transfer Out' by the disbursing fund.

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Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2010, is presented below:

	Balance 9/1/2009	Adj	Reclassifications Completed CIP	Inc-Int'agy Trans	Dec-Int'agy Trans	Additions	Deletions	Balance 8/31/2010
GOVERNMENTAL ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	343,586.09	(37,897.00)				14,904.32	(49,196.24)	271,397.17
Other Capital Assets								-
Total Depreciable Assets at Historical Costs	343,586.09	(37,897.00)	-	-	-	14,904.32	(49,196.24)	271,397.17
Less Accumulated Depreciation for:								
Furniture and Equipment	(309,436.61)	37,897.00				(22,858.88)	49,196.24	(245,202.25)
Other Capital Assets								-
Total Accumulated Depreciation	(309,436.61)	37,897.00	-	-	-	(22,858.88)	49,196.24	(245,202.25)
Amortizable Assets - Intangible								
Computer Software		37,897.00						37,897.00
Other Intangible Capital Assets								-
Total Depreciable Assets at Historical Costs	-	37,897.00	-	-	-	-	-	37,897.00
Less Accumulated Amortization for:								
Computer Software		(37,897.00)						(37,897.00)
Other Intangible Capital Assets								-
Total Accumulated Amortization	-	(37,897.00)	-	-	-	-	-	(37,897.00)
Governmental Activities Capital Assets, Net	\$ 34,149.48	\$ -	\$ -	\$ -	\$ -	\$ (7,954.56)	\$ -	\$ 26,194.92

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Note 3: Deposits, Investments, & Repurchase Agreements

The Public Utility Commission is authorized by statute to make investments following the “prudent person rule.” There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2010, the carrying amount of deposits was \$3,500 as presented below.

Governmental and Business-Type Activities	
CASH IN BANK – BANK BALANCE	\$ 2,899.00
CASH IN BANK per AFR	\$ 3,500.00

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Note 5: Summary of Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2010 the following changes occurred in liabilities.

Governmental Activities	Balance 9/01/09	Additions	Reductions	Balance 8/31/10	Amounts Due Within 1 Year
Compensable Leave	\$ 1,194,958.76	\$1,136,155.33	\$1,096,324.87	\$ 1,234,789.22	\$719,911.60
Total Governmental Activities	\$ 1,194,958.76	\$1,136,155.33	\$1,096,324.87	\$1,234,789.22	\$719,911.60

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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Note 8: Operating Leases

During FY 2010, future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

	Minimum Lease Payment
Year Ending August 31, 2011	\$ 222,681.21
Year Ending August 31, 2012	113,927.40
Year Ending August 31, 2013	56,963.70
Year Ending August 31, 2014	
Year Ending August 31, 2015	
Total Minimum Future Lease Rental Payments	\$ 393,572.31

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Note 13: Continuance Subject to Review

The Public Utility Commission is subject to Govt. Code Chapter 325 (Texas Sunset Act). Unless the agency is continued in existence as provided by Texas Sunset Act or by Chapter 39 of the Public Utility Regulatory Act (Title II, Texas Utilities Code), the commission is abolished as of September 1, 2011.