

LA PORTE AREA WATER AUTHORITY

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2011



2000 Loop 197 N., Suite 200
Texas City, Texas 77590
(409) 948-4406

LA PORTE AREA WATER AUTHORITY

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report		1
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets	B-1	10
Statement of Revenues, Expenses and Changes in Fund Net Assets	B-2	11
Statement of Cash Flows	B-3	12
Notes to the Financial Statements	B-4	13
Supplemental Information		
Supplemental Schedules Included Within this Report		23
Schedule of Service and Rates	E	24
Schedule of Enterprise Fund Expenses	F	25
Schedule of Temporary Investments	G	26
Schedule of Changes in Capital Assets	I	27
Long-Term Debt Service Requirements by Years	J	28
Analysis of Changes in Long-Term Debt	K	29
Statement of Revenues and Expenses - Five Years	L	30
Insurance Coverage	M	33
Board Members, Key Personnel and Consultants	N	34
Statement of Revenues, Expenses and Changes in Working Capital - Budget and Actual, Non-GAAP Presentation	O	36

(This page intentionally left blank)

Independent Auditors' Report

To the Board of Directors of
The La Porte Area Water Authority
La Porte, Texas

We have audited the accompanying basic financial statements of the La Porte Area Water Authority (the "Authority"), a component unit of the City of La Porte, Texas as of and for the year ended September 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and on page 36 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.

To the Board of Directors of
The La Porte Area Water Authority
La Porte, Texas

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

A handwritten signature in black ink that reads "M. L. Larson, AC". The signature is written in a cursive style with a large initial "M" and "L".

Texas City, Texas
February 8, 2012

Management's Discussion and Analysis

LA PORTE AREA WATER AUTHORITY

Management's Discussion and Analysis

As management of the La Porte Area Water Authority, we offer readers of the Water Authority's financial statements this narrative overview and analysis of the financial activities of the Water Authority for the fiscal year ended September 30, 2011.

Financial Highlights

- The assets of the La Porte Area Water Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,020,950 (net assets). Of this amount, \$2,480,389, unrestricted net assets, may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the Water Authority's fund designation and fund policies.
- The government's total net assets increased by \$396,266.
- The Water Authority's total bonded debt decreased by \$585,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Water Authority's basic financial statements. The La Porte Area Water Authority is considered a component unit of the City of La Porte, Texas since the Water Authority provides approximately 86% of its services for the exclusive benefit of the City of La Porte. The Water Authority's basic financial statements are comprised of the fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements – The operations of the Water Authority are recorded in a proprietary (enterprise) fund. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The statement of revenues, expenses and changes in fund net assets presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and accounts payable due to suppliers).

The fund financial statements can be found on pages 10-12 of this report.

LA PORTE AREA WATER AUTHORITY

Management's Discussion and Analysis (continued)

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 13-19 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Water Authority's operations. Required supplementary information can be found on pages 23-36 of this report.

Financial Analysis of the Government's Funds

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the La Porte Area Water Authority, assets exceeded liabilities by \$7,020,950 at the close of the fiscal year.

The largest portion of the Water Authority's net assets (59%) reflects its investment in capital assets (e.g., water production and distribution system), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide water services to the participants; consequently, these assets are not available for future spending. Although the Water Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

La Porte Area Water Authority's Net Assets

	Business-Type Activities	
	2011	2010
Current and other assets	\$ 2,942,301	\$ 2,744,898
Capital assets	7,737,763	8,198,640
Total Assets	10,680,064	10,943,538
Current liabilities	658,412	693,796
Noncurrent liabilities	3,000,702	3,625,058
Total Liabilities	3,659,114	4,318,854
Net Assets:		
Invested in capital assets, net of related debt	4,132,061	3,988,582
Restricted	408,500	680,049
Unrestricted	2,480,389	1,956,053
Total Net Assets	\$ 7,020,950	\$ 6,624,684

An additional portion of the City's net assets (6%) represents resources that are subject to external restrictions for debt service. The remaining balance of unrestricted net assets (\$2,480,389) represents funds available to meet other ongoing obligations to participants and/or creditors.

Analysis of the Water Authority's Operations – the following table provides a summary of the Water Authority's operations for the year ended September 30, 2011.

LA PORTE AREA WATER AUTHORITY
Management's Discussion and Analysis (continued)

*La Porte Area Water Authority's
Change in Net Assets*

	Business-Type Activities	
	2011	2010
Operating revenues:		
Charges for Services	\$ 1,246,186	\$ 929,497
Total operating revenues	<u>1,246,186</u>	<u>929,497</u>
Operating expenses:		
Supplies	5,343	14,761
Purchased water	1,006,229	813,405
Services and charges	81,360	151,592
Depreciation	460,877	461,171
Total operating expenses	<u>1,553,809</u>	<u>1,440,929</u>
Operating income (loss)	(307,623)	(511,432)
Nonoperating revenues (expenses)	<u>(87,546)</u>	<u>(131,684)</u>
Income (loss) before contributions and transfers	(395,169)	(643,116)
Capital contributions	<u>791,435</u>	<u>860,304</u>
Change in net assets	396,266	217,188
Total net assets - beginning	6,624,684	6,407,496
Total net assets - ending	<u>\$ 7,020,950</u>	<u>\$ 6,624,684</u>

Total fund net assets increased by \$396,266 in 2011. The actual water revenue and capital recovery fees for fiscal year ended September 30, 2011, of \$1,347,825 were 12% higher than the amount budgeted of \$1,205,511 due to an increase in consumption as a result of decreased rainfall. Interest earned on investments remained flat.

The Water Authority has not made any revisions to the original appropriations approved by the City Council for the 2010-2011 budget.

Capital Assets and Debt Administration

Capital Assets - The La Porte Area Water Authority's investment in capital assets as of September 30, 2011 amounts to \$7,737,763 (net of accumulated depreciation).

There were not any additions or retirements of capital assets during the current fiscal year. The only activity is current year depreciation in the amount of \$460,877. Capital assets at year end consisted of the following:

	<u>Ending Balance</u>
Water, sewer and drainage facilities	
Water production and distribution system	\$ 7,737,763
	<u>\$ 7,737,763</u>

Additional information of the La Porte Area Water Authority's capital assets can be found in Note 5 on page 16 of this report.

LA PORTE AREA WATER AUTHORITY

Management's Discussion and Analysis (continued)

Debt Administration – At the end of the fiscal year, the La Porte Area Water Authority had bonded debt payable of secured solely by water and sewer revenues. The revenue bonds have been rated “AA” by Standard & Poor’s, Fitch and Moody’s rating agencies.

Additional information on the Water Authority’s long-term debt can be found in Note 7 on page 17-18 of this report.

Economic Facts and Next Year’s Budgets and Rates

The Water Authority has benefited from a strong and expanding economy from the past several years, but in this coming fiscal year, the Water Authority’s budget may be increased to cover the Southeast Plant true-up cost.

Request for Information

This financial report is designed to provide a general overview of the La Porte Area Water Authority’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report of requests for additional information should be addressed to the Director of Finance, 604 West Fairmont Parkway, La Porte, Texas, 77571.

(This page intentionally left blank)

Basic Financial Statements

LA PORTE AREA WATER AUTHORITY
STATEMENT OF NET ASSETS
September 30, 2011

EXHIBIT B-1

Assets

Current assets:

Cash	\$ 622,948
Investments	1,352,469
Accounts receivable, net of allowance for doubtful accounts	217,108
Accrued interest receivable	556
Prepaid expenses	60,058
Restricted assets:	
Restricted cash	689,162
Total current assets	<u>2,942,301</u>

Noncurrent assets:

Water production and distribution system	15,435,810
Less: accumulated depreciation	<u>(7,698,047)</u>
Total noncurrent assets	<u>7,737,763</u>
Total Assets	<u>10,680,064</u>

Liabilities

Current liabilities:

Accounts payable	49,424
Current liabilities (payable from restricted assets):	
Current portion of revenue bonds	605,000
Accrued interest	3,988
Total current liabilities	<u>658,412</u>

Noncurrent liabilities

Revenue bond, net of current portion	<u>3,000,702</u>
Total Liabilities	<u>3,659,114</u>

Net Assets

Invested in capital assets, net of related debt	4,132,061
Restricted for debt service	408,500
Unrestricted	2,480,389
Total net assets	<u>\$ 7,020,950</u>

See Notes to the Financial Statements.

LA PORTE AREA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
Year Ended September 30, 2011

EXHIBIT B-2

Operating Revenues	
Charges for services	\$ 1,246,186
Total operating revenues	<u>1,246,186</u>
Operating Expenses	
Supplies	5,343
Purchased water	1,006,229
Other services and charges	81,360
Depreciation	460,877
Total operating expenses	<u>1,553,809</u>
Operating income (loss)	<u>(307,623)</u>
Nonoperating Revenues (Expenses)	
Interest income	25,167
Interest expense and fiscal charges	(112,713)
Total nonoperating revenue (expenses)	<u>(87,546)</u>
Income (loss) before contributions and transfers	(395,169)
Capital contributions	<u>791,435</u>
Change in net assets	396,266
Total net assets - beginning	6,624,684
Total net assets - ending	<u><u>\$ 7,020,950</u></u>

See Notes to the Financial Statements.

LA PORTE AREA WATER AUTHORITY**EXHIBIT B-3****STATEMENT OF CASH FLOWS****Year Ended September 30, 2011****Cash Flows from Operating Activities**

Receipts from customers	\$ 1,196,894
Payments to suppliers	(1,136,584)
Net cash provided by operating activities	<u>60,310</u>

Cash Flows from Capital and Related Financing Activities

Payments received from participants for debt service	689,796
Payments received from participants for capital recovery	101,639
Principal payments on revenue bonds	(604,356)
Interest paid on capital debt	(113,444)
Net cash provided by capital and related financing activities	<u>73,635</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	
Sale of investments	(108,199)
Interest and dividends	24,876
Net cash provided by investing activities	<u>(83,323)</u>
Net (decrease) in cash and cash equivalents	50,622

Balances - beginning of the year

1,261,488

Balances - end of the year\$ 1,312,110**Reconciliation of operating income (loss) to net cash provided (used)****by operating activities:**

Operating income (loss)	\$ (307,623)
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	460,877
Change in assets and liabilities:	
Receivables, net	(49,292)
Prepaid expenses	11,001
Accounts payable	(54,653)

Net Cash provided by operating activities\$ 60,310**Reconciliation of total cash and cash investments:**

Current Assets - cash and cash equivalents	\$ 622,948
Restricted Assets - cash and cash equivalents	689,162
Total cash and cash equivalents	<u>\$ 1,312,110</u>

See Notes to the Financial Statements.

Note 1 - Creation of Authority

The La Porte Area Water Authority (the “Authority”) was created on May 30, 1981 by Chapter 729, Page 2678, Acts of the 67th Legislature of the State of Texas. This bill authorizes the Authority to purchase, construct or otherwise acquire waterworks systems, sanitary sewer systems, storm sewer systems and drainage facilities or parts of such systems of facilities and to operate and maintain such facilities. The Authority is authorized to set rates for services related to the aforementioned systems and facilities, and issue revenue bonds for the purpose of acquiring and maintaining such systems. The Authority comprises approximately 20,600 acres in Harris County, Texas.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, the Authority has elected not to apply to its propriety activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Authority are described below.

Consideration regarding the potential for inclusion of other entities, organizations or functions in the Authority's financial reporting entity is based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Authority is a part of any other governmental or other type of reporting entity. Criteria for determining component unit status under generally accepted accounting principles included considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The La Porte Area Water Authority is considered a component unit of the City of La Porte, Texas by virtue of meeting the criteria noted above. The primary factor in determining component unit status is that the Authority provides approximately 86% of its services for the exclusive benefit of the City of La Porte. The Authority's financial operations are included as an Enterprise Fund in the City's Comprehensive Annual Financial Report as a blended component unit. The City of La Porte is referred to as “Primary Government” throughout the authority’s financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The operations of the Authority are recorded in an enterprise fund. Enterprise funds are used to account for operations (a) that are financed primarily through user charges or (b) where the governing body has decided that determination of net income is appropriate. The enterprise fund is a proprietary fund type.

C. Basis of Accounting

Enterprise Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are presented on the statement of net assets in a classified format to distinguish between current and long-term assets and liabilities. Net assets are presented in three components: invested in capital assets, net of related debt; restricted; and unrestricted. Enterprise fund operating statements present increases (e.g., revenues), decreases (e.g., expenses) and changes in net total assets.

Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

D. Cash Equivalents

For purposes of the statement of cash flows, the Authority considers cash held in demand accounts and all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

E. Physical Facilities and Depreciation

Fixed assets, which consist of a water production and distribution system, are shown at original cost. Interest paid during construction of facilities, if any, is also included in this cost. Depreciation has been provided for the Authority's water production and distribution system using the straight-line method over a 30-year estimated useful life.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents represent the Authority's equity interest in the City's consolidated cash and cash equivalents account consisting of demand accounts and short-term investments with a maturity at date of purchase of three months or less. State statutes require that all funds in depository institutions be covered by federal depository insurance and/or be secured in the manner provided by law for security of funds. Cash and cash equivalent balances held by the City were entirely covered by federal depository insurance or security as required at September 30, 2011.

Note 4 - Temporary Investments

Temporary investments represent the Authority’s equity interest in the City’s investment pool. At year end a portion of the Authority’s temporary investments were restricted as follow:

Restricted for retirement of current debt service liabilities and reserve requirements per bond covenants	\$ 689,162
Total Restricted Temporary Investments	<u>\$ 689,162</u>

The carrying amount for temporary investments, at September 30, 2011, was \$1,352,469, which is fair value. This represents 7.46% of the City’s total portfolio.

Pooled investments with the City consist of obligations of the United States and its agencies, certificates of deposit and investment pools in accordance with state statutes and the City’s investment policies. Securities are registered and held by their agent in the City’s name. The Authority’s portion of the investment pool is 3.72%. Interest earnings are allocated on the same pro-rata basis. The investment pool is not registered with the SEC or subject to any regulatory oversight. The fair value of the position in the pool is the same as the value of pool shares. The City has adopted GASB Statement No. 31, which establishes accounting and reporting standards for all of the City’s investments. In accordance with Statement No. 31, the City reports all investments at fair value, except for “money market investments” and “2a7-like pools”. Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940, such as TexPool and TexSTAR, are reported using the pools’ share price.

Interest Rate Risk

The Authority’s investment policy specifies that the maximum stated maturity, from the date of purchase, for any individual investment may not exceed 5 years and the maximum dollar-weighted average maturity may not exceed 2 years. At year end, the Authority’s dollar-weighted average maturity of the investment portfolio was as follows:

<u>Investment Type</u>	<u>Weighted Average Maturity (Days)</u>
Federal Home Loan Mortgage Corporation (FHLMC)	110
Federal National Mortgage Association (FNMA)	27
Federal Home Loan Bank (FHLB)	14
Portfolio Weighted Average Maturity	<u>33</u>

Note 4 - Temporary Investments (continued)

Concentration of Credit Risk

The Authority's investment policy places no limit on the amount the government may invest in any one issuer. At September 30, 2011, the Authority's investment portfolio consisted of the following investments:

<u>Investment Type</u>	<u>Percentage of Total Portfolio</u>
Federal Home Loan Mortgage Corporation (FHLMC)	10%
Federal National Mortgage Association (FNMA)	74%
Federal Home Loan Bank (FHLB)	16%
	<u>100.00%</u>

Credit Risk

At year end balances in TexPool, a privately managed public funds investment pool was rated AAAM by Standard & Poor's, balances in TexSTAR, a privately managed public funds investment pool was rated AAAM by Standard & Poor's, and balances in LOGIC, a privately managed public funds investment pool was rated Aaa/MR1+ by Standard & Poor's.

Federal Home Loan Mortgage Corporation notes, Federal Home Loan Banks bonds and Federal National Mortgage Association notes were rated AA+ by Standard & Poor's.

All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the Authority's investment policy.

Note 5 - Capital Assets

An analysis of changes in physical facilities for the year ended September 30, 2011 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in progress	\$ 123,680	\$	\$ (123,680)	\$
Total capital assets not being depreciated	<u>123,680</u>		<u>(123,680)</u>	
Capital assets being depreciated				
Water production and distribution system	15,312,130		123,680	15,435,810
Less accumulated depreciation for:				
Water production and distribution system	(7,237,170)	(460,877)		(7,698,047)
Total capital assets being depreciated, net	<u>8,074,960</u>	<u>(460,877)</u>	<u>123,680</u>	<u>7,737,763</u>
Investment in capital assets from:				
Contributions by participants	\$ 8,198,640	\$ (460,877)	\$	\$ 7,737,763

*Depreciation expense of \$460,877 charged to water services function/program.

Note 6 - Southeast Water Purification Plant

The Authority and the City of Houston, Texas have entered into a Cost Sharing Water Project Contract (the "Contract") wherein the Authority, the Cities of La Porte, Morgan's Point and Shoreacres agree to jointly finance the construction and operation of the Southeast Water Purification Plant (Southeast Plant). Under the terms of the Contract, the Authority purchased 4.2 million gallons per day production and 5.25 million gallons per day pumping capacity. The Cities of La Porte, Morgan's Point and Shoreacres have agreed to demand and pumping allocations of the Authority's purchase of water from the Southeast Plant.

The required funds for the undivided interest in the Southeast Plant and the construction of a transmission and distribution system to transport water from the Southeast Plant were provided by issuance of \$9.8 million revenue bonds.

The water rate to be set by the Authority will not be less than an amount sufficient to provide for payment of all expenses in producing, treating and pumping the water in connection with transmission and distribution systems and to provide payment for the interest and principal of all bonds when the bonds become due and payable.

Note 7 - Contract Revenue Bonds Payable, Debt Service Requirements and Bond Resolution Requirements

On May 13, 2010, the La Porte Area Water Authority issued \$4.085 million in Contract Revenue Refunding Bonds, Series 2010, with an average interest rate of 2.773% to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4.085 million of unlimited tax bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The bonds are payable from the net revenue of the Authority. The bonds are in \$5,000 denominations. Interest is payable on March 15 and September 15 of each year to maturity. The Authority is in compliance with all significant requirements and restrictions contained in the bond resolution.

Bonds payable at September 30, 2011, are comprised of the following issue.

<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Interest Payment Date</u>
\$ 3,500,000	2.25-4.00%	March 15, 2017	March 15/ September 15

Bonds payable activity for the year ended September 30, 2011 was as follows:

<u>Bonds and Notes Payable</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Contract Revenue Refunding	\$ 4,085,000	\$	\$ (585,000)	\$ 3,500,000	\$ 605,000
Premium on bonds	111,846		(17,312)	94,534	0
Deferred amount on refunding	13,212		(2,044)	11,168	0
	<u>\$ 4,210,058</u>	<u>\$</u>	<u>\$ (604,356)</u>	<u>\$ 3,605,702</u>	<u>\$ 605,000</u>

Note 7 - Contract Revenue Bonds Payable, Debt Service Requirements and Bond Resolution Requirements (continued)

As of September 30, 2011, the debt service requirements on contract revenue bonds outstanding for the next five fiscal years and thereafter through 2017 are as follows:

Due During Fiscal Year Ending 9/30	<u>Annual Requirement for All Bond Series</u>		
	Total	Total	Total
	Principal	Interest	Requirements
2012	\$ 605,000	\$ 88,150	\$ 693,150
2013	625,000	73,556	698,556
2014	630,000	58,650	688,650
2015	650,000	41,838	691,838
2016	670,000	22,850	692,850
2017	320,000	6,400	326,400
	<u>\$ 3,500,000</u>	<u>\$ 291,444</u>	<u>\$ 3,791,444</u>

Note 8 - Fund Net Assets

The Authority provides surface water to the City of La Porte, Texas (the “City”) and the Cities of Shoreacres and Morgan's Point in order for these entities to comply with certain requirements imposed by the Harris County Subsidence District. The City retains the rights to approximately 86% of the water capacity of the Authority with the Cities of Shoreacres and Morgan's Point retaining the rights to the remaining 14%. The City, Shoreacres and Morgan's Point have agreed to service the debt on the Authority's contract revenue bonds and to fund operations of the Authority in relation to their capacity rights and to purchase water based on actual consumption.

As part of the debt service requirements, the participants are billed to build a reserve for future debt service requirements as set forth in the contract revenue bonds of the Authority. During the year, the Authority's billings were applied as follows:

Water Supplied and Operating costs(User fees)	\$ 1,246,186
Debt Service Billings/ Charges	689,796
Capital recovery billings	101,639
Total Billings	<u>\$ 1,935,982</u>

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority participates (through an endorsement on the City of La Porte's contract) along with other entities in the Texas Municipal League's Intergovernmental Risk Pool. The pool purchases commercial insurance at group rates for participants in the pool. Neither the Authority nor the City has additional risk or responsibility to the pool, outside of payment of insurance premiums. Neither the Authority nor the City had significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Note 10 - Economic Dependency

The Authority receives all of its support from three municipalities, with the City of La Porte being the largest contributor at approximately 86%. In addition, the Authority contracts with the City of La Porte to provide administrative oversight and operate the Authority's transmissions system.

(This page intentionally left blank.)

Supplementary Information

(This page intentionally left blank.)

LA PORTE AREA WATER AUTHORITY
SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
September 30, 2011

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- D. Notes Required by the Water District Accounting Manual
See "Notes to the Financial Statements (Exhibit B-4)," Pages 13-19
- E. Schedule of Services and Rates
- F. Schedule of Enterprise Fund Expenses
- G. Schedule of Temporary Investments
- H. Analysis of Taxes Levied and Receivable (No tax levy)
- I. Schedule of Changes in Fixed Assets
- J. Long-Term Debt Service Requirements, by Years
- K. Analysis of Changes in Long-Term Debt
- L. Statement of Revenues and Expenses, Enterprise Fund – Five Years
- M. Insurance Coverage
- N. Board Members, Key Personnel and Consultants
- O. Statement of Revenues, Expenses and Changes in Working Capital - Budget and Actual,
Non-GAAP Presentation

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF SERVICE AND RATES
Year ended September 30, 2011

SCHEDULE E

1. Services provided by the District:

<input type="checkbox"/>	Retail Water	<input checked="" type="checkbox"/>	Wholesale Water	<input type="checkbox"/>	Drainage
<input type="checkbox"/>	Retail Sewer	<input type="checkbox"/>	Wholesale Sewer	<input type="checkbox"/>	Irrigation
<input type="checkbox"/>	Parks/Recreation	<input type="checkbox"/>	Fire Protection	<input type="checkbox"/>	Security
<input type="checkbox"/>	Solid Waste/Garbage	<input type="checkbox"/>	Flood Control	<input type="checkbox"/>	Roads
<input type="checkbox"/>	Participates in joint venture, regional system, and and/or wastewater service (other than emergency interconnect)				
<input type="checkbox"/>	Other _____				

2. Total Water Consumption during the Fiscal Year:
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>1,749,010,000</u>	Water Accountability Ratio:
		(Gallons billed/Gallons pumped)
Gallons billed to customers:	<u>1,667,494,000</u>	<u>95.3%</u>

3. Standby fees: Does the District assess standby fees? Yes No

4. Location of District:

County in which the District is located: Harris County

Is the District located entirely within one county? Yes No

Is the District located within a City? Entirely Partly Not at all

City in which District is located Morgan's Point, Shoreacres and La Porte

Is the Authority located within a city's extra territorial jurisdiction (ETJ)?
 Entirely Partly Not at all

City in which Authority is located Morgan's Point, Shoreacres and La Porte

Is the general membership of the Board appointed by an office outside the Authority?
 Yes No

If yes, by Whom? La Porte City Council

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF ENTERPRISE FUND EXPENSES
September 30, 2011

SCHEDULE F

Professional Fees	
Auditing	\$ 6,500
Legal	305
Purchased Service for Resale	
Bulk water purchase	1,006,229
Contracted Services	
Management/operation (primary government)	62,924
Administrative Expenses	
Supplies	5,343
Other administrative	11,631
Other Expenses	
Depreciation	<u>460,877</u>
Total Expenses	<u><u>\$ 1,553,809</u></u>
Number of persons employed by the District	<u>-</u>

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF TEMPORARY INVESTMENTS
Year ended September 30, 2011

SCHEDULE G

	<u>Interest Rate*</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Accrued Interest Receivable</u>
Equity interest in City of La Porte's investment pool	0.93%	Demand	\$ 1,352,469	\$ 556

Pooled investments with the City of La Porte consist of obligations of the United States and its agencies and investment pools in accordance with state statutes and the City of La Porte's investment policies.

*Approximate return for September 2011.

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF CHANGES IN CAPITAL ASSETS
Year ended September 30, 2011

SCHEDULE I

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in progress	\$ 123,680	\$	\$ (123,680)	\$
Total capital assets not being depreciated	<u>123,680</u>		<u>(123,680)</u>	
Capital assets being depreciated				
Water production and distribution system	15,312,130		123,680	15,435,810
Less accumulated depreciation for:				
Water production and distribution system	(7,237,170)	(460,877)		(7,698,047)
Total capital assets being depreciated, net	<u>8,074,960</u>	<u>(460,877)</u>	<u>123,680</u>	<u>7,737,763</u>
Investment in capital assets from:				
Contributions by participants	<u>\$ 8,198,640</u>	<u>\$ (460,877)</u>	<u>\$</u>	<u>\$ 7,737,763</u>

See Accompanying Auditor's Report.

LA PORTE AREA WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
September 30, 2011

SCHEDULE J

Due During Fiscal Year Ending 9/30	<u>Annual Requirement for All Bond Series</u>		
	Total Principal	Total Interest	Total Requirements
2012	\$ 605,000	\$ 88,150	\$ 693,150
2013	625,000	73,556	698,556
2014	630,000	58,650	688,650
2015	650,000	41,838	691,838
2016	670,000	22,850	692,850
2017	320,000	6,400	326,400
	\$ 3,500,000	\$ 291,444	\$ 3,791,444

See Accompanying Auditor's Report.

LA PORTE AREA WATER AUTHORITY
ANALYSIS OF CHANGES IN LONG-TERM DEBT
Year ended September 30, 2011

SCHEDULE K

	Series 2010	Total
Interest rate	2.25% to 4.0%	
Date interest payable	03/15;09/15	
Maturity dates	03/15/11-03/15/17	
Bonds outstanding at beginning of year	\$ 4,085,000	\$4,085,000
Retirements	(585,000)	(585,000)
Refunded	0	0
Issued	<u>0</u>	<u>0</u>
Bonds outstanding at end of year	<u>\$ 3,500,000</u>	<u>\$3,500,000</u>
Interest paid	<u>\$ 104,488</u>	<u>\$ 104,488</u>

Paying Agent/Registrar

Refunding Bonds Series 2010 The Bank of New York Mellon Trust Company, N.A. – Dallas, Texas

Bond Authority	Tax Bonds*	Contract Revenue Bonds	Refunding Bonds
Amount authorized by voters	\$ -	N/A	N/A
Amount issued	<u>-</u>	<u>-</u>	<u>4,085,000</u>
Remaining to be issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Cash and temporary investment balances as of September 30, 2011	\$ 2,664,579
Average annual debt service payment (principal and interest) for remaining term of all debt	\$ 631,907

LA PORTE AREA WATER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES - FIVE YEARS
September 30, 2011

	AMOUNTS				
	2011	2010	2009	2008	2007
Operating Revenues					
User fees	\$ 1,246,186	\$ 929,497	962,843	\$ 985,972	\$ 1,035,062
Operating Expenses					
Supplies	5,343	14,761	7,050	46	213
Purchased water	1,006,229	813,405	818,482	745,775	700,831
Services and charges	81,360	151,592	89,202	85,459	80,344
Depreciation	460,877	461,171	461,465	451,689	441,913
Total Operating Expenses	1,553,809	1,440,929	1,376,199	1,282,969	1,223,301
Operating Loss	(307,623)	(511,432)	(413,356)	(296,997)	(188,239)
Nonoperating Revenues (Expenses)					
Interest income	25,167	25,187	29,957	77,870	110,364
Interest expense	(112,713)	(156,871)	(243,859)	(272,369)	(299,598)
Net nonoperating Revenues	(87,546)	(131,684)	(213,902)	(194,499)	(189,234)
Income (loss) Before Contributions and Operating Transfers	(395,169)	(643,116)	(627,258)	(491,496)	(377,473)
Contributions	791,435	860,304	860,304	860,388	780,288
Net Income (Loss)	\$ 396,266	\$ 217,188	\$ 233,046	\$ 368,892	\$ 402,815

See Accompanying Auditor's Report.

SCHEDULE L

PERCENT OF TOTAL REVENUES				
2011	2010	2009	2008	2007
100.00%	100.00%	100.00%	100.00%	100.00%
0.43%	1.59%	0.73%	0.00%	0.02%
80.74%	87.51%	85.01%	75.64%	67.71%
6.53%	16.31%	9.26%	8.67%	7.76%
36.98%	49.62%	47.93%	45.81%	42.69%
124.68%	155.02%	142.93%	130.12%	118.19%
-24.68%	-55.02%	-42.93%	-30.12%	-18.19%
2.02%	2.71%	3.11%	7.90%	10.66%
-9.04%	-16.88%	-25.33%	-27.62%	-28.94%
-7.04%	-14.17%	-22.22%	-19.73%	-18.29%
-31.71%	-69.19%	-65.15%	-49.85%	-36.47%
63.51%	92.56%	89.35%	87.26%	75.39%
31.80%	23.37%	24.20%	37.40%	38.92%

(This page intentionally left blank.)

LA PORTE AREA WATER AUTHORITY

SCHEDULE M

INSURANCE COVERAGE

September 30, 2011

Type of Coverage	From/To	Amount of Coverage	Insurer Name	Policy Clause Insurance
Comprehensive General and Contractual Liability Bodily Injury and Property Damage:	10/01/10 - 10/01/11	\$ -	Texas Municipal League Intergovernmental Risk Pool*	None
Per occurrence		2,000,000		
Aggregate		4,000,000		
Deductible		5,000		
Pollution Liability	10/01/10 - 10/01/11	2,000,000	Texas Municipal League Intergovernmental Risk Pool*	None
Errors and Omissions**	10/01/10 - 10/01/11		Texas Municipal League Intergovernmental Risk Pool*	None
Per act		3,000,000		
Aggregate		6,000,000		
Deductible		5,000		
Automobile Liability	10/01/10 - 10/01/11		Texas Municipal League Intergovernmental Risk Pool*	None
Each occurrence		1,000,000		
Each person		25,000		
Deductible		1,000		

**Directors are covered under the errors and omission policy.

See Accompanying Auditor's Report.

LA PORTE AREA WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
September 30, 2011

Authority's Mailing Address: City of La Porte
 Michael Dolby
 PO Box 1115
 La Porte, Texas 77572

Authority's Business Phone Number: (281) 471-5020

<u>Name and Address</u>	<u>Term of Office/ Appointed/ Expires</u>	<u>Expense Reimbursements</u>	<u>Title at Year End</u>	<u>Resident of Authority</u>
<i>Board Members</i>				
David Janda 412 Spencer Landing East La Porte, TX 77571	8/30/2010 Yes 8/31/2012		President Position 4	
Steve Valerius 140 Hazel La Porte, TX 77571	9/30/2011 Yes 8/31/2013		Secretary Position 3	
Randy Woodard 2601 S. Broadway La Porte, TX 77571	8/30/2011 Yes 8/31/2013		Member Position 1	
Ken Schlather 9811 Catlett La Porte, TX 77571	8/30/2010 Yes 8/31/2012		Vice President Position 5	
Dennis H. Steger 3201 Bayshore Dr. La Porte, TX 77571	8/30/2011 Yes 8/31/2013		Member Position 2	
<i>Key Administrative Personnel</i>				
Steve Gillett	Yes		General Manager	
Michael Dolby			Director of Finance	

Note: No director has any business or family relationship (as defined by the Texas Water Code) with major landowners in the Authority or with any of the Authority's consultants.

See Accompanying Auditor's Report.

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title</u>
<i>Consultants</i>			
City of La Porte 604 W. Fairmont Parkway La Porte, TX 77571	1981	\$61,619	Management/Operator
Null-Lairson, PC 3411 Richmond Ave, Suite 500 Houston, TX 77046	2011		Auditor
The Bank of New York Global Corporate Trust 2001 Bryan Street, 10th Floor Dallas, TX 75201	1999	\$800	Paying Agent

See Accompanying Auditor's Report.

LA PORTE AREA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN WORKING CAPITAL
BUDGET AND ACTUAL - NON-GAAP PRESENTATION
Year ended September 30, 2011

SCHEDULE O

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water revenue billing	\$ 1,103,835	1,246,186	\$ 142,351
Debt billing		689,796	689,796
Capital recovery billing	101,676	101,639	(37)
Interest earnings	13,500	25,167	11,667
Total Revenues	<u>1,219,011</u>	<u>2,062,788</u>	<u>843,777</u>
Expenditures			
Current:			
Supplies	5,360	5,343	17
Other services and charges	54,089	18,436	35,653
Water	918,547	1,006,229	(87,682)
Admin transfer to Primary government	62,924	62,924	
Debt Service		<u>132,713</u>	<u>(132,713)</u>
Total Expenses	<u>1,040,920</u>	<u>1,225,645</u>	<u>(184,725)</u>
Revenues Over/Under Expenditures	178,091	837,143	659,052
Working Capital – beginning	<u>2,279,969</u>	<u>2,029,857</u>	<u>(250,112)</u>
Working Capital – ending	<u>\$ 2,458,060</u>	<u>\$ 2,867,000</u>	<u>\$ 408,940</u>

See Accompanying Auditor's Report.