

**LA PORTE AREA WATER AUTHORITY**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**September 30, 2017**



# LA PORTE AREA WATER AUTHORITY

## ANNUAL FINANCIAL REPORT

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SEPTEMBER 30, 2017

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PATILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

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

### Report on Financial Statements

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, 2017, and the related notes to the 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

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, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in conformity 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 on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not 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 operations, 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 Authority's basic financial statements. The Texas Supplementary Information listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Texas Supplementary Information listed in the table of contents, 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, unless marked “unaudited”, 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 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 information, unless marked “unaudited”, is fairly stated in all material respects in relation to the financial statements as a whole.

The Texas Supplementary Information that is marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on the Supplementary Information that is marked “unaudited”.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
February 7, 2018

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## 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, 2017.

#### Financial Highlights

- The assets of the La Porte Area Water Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,789,827 (net position). Of this amount, \$2,800,820, unrestricted net position, 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 position decreased by \$242,793.
- The Water Authority paid off bonded debt in the amount of \$320,000 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 position presents information on all the Water Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 net position presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This, 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 8 – 10 of this report.

**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 11 – 17 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’s Authority’s operations. Supplementary information can be found on pages 18 – 27 of this report.

### **Financial Analysis of the Government’s Funds**

As noted earlier, net position 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 \$7,789,827 at the close of the fiscal year.

The largest portion of the Water Authority’s net position \$4,989,007 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.

#### **AUTHORITY’S NET POSITION**

|  | Business-Type Activities |                     |
|--|--------------------------|---------------------|
|  | 2017                     | 2016                |
| Current and other assets                   | \$ 2,900,883             | \$ 3,013,779        |
| Capital assets                             | 4,989,007                | 5,455,381           |
| <b>Total Assets</b>                        | <b>7,889,890</b>         | <b>8,469,160</b>    |
| Current liabilities                        | 100,063                  | 427,724             |
| Noncurrent liabilities                     | -                        | 7,879               |
| <b>Total Liabilities</b>                   | <b>100,063</b>           | <b>435,603</b>      |
| <b>Total Deferred Inflows of Resources</b> | <b>-</b>                 | <b>937</b>          |
| Net investment in capital assets           | 4,989,007                | 5,127,502           |
| Restricted                                 | -                        | 326,400             |
| Unrestricted                               | 2,800,820                | 2,578,718           |
| <b>Total Net Position</b>                  | <b>\$ 7,789,827</b>      | <b>\$ 8,032,620</b> |

The remaining balance of unrestricted net position of \$2,800,820 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, 2017.

**AUTHORITY'S CHANGE IN NET POSITION**

|   | Business-Type Activities |                     |
|---|--------------------------|---------------------|
|   | 2017                     | 2016                |
| <b>Revenues</b>                         |                          |                     |
| Charges for services                    | \$ 1,232,696             | \$ 1,181,318        |
| Miscellaneous                           | 8,816                    | -                   |
| <b>Total revenues</b>                   | <u>1,241,512</u>         | <u>1,181,318</u>    |
| <b>Operating expenses</b>               |                          |                     |
| Supplies                                | 14,349                   | 4,863               |
| Purchased water                         | 1,042,226                | 939,140             |
| Services and charges                    | 98,878                   | 86,535              |
| Depreciation                            | 466,374                  | 465,687             |
| <b>Total operating expenses</b>         | <u>1,621,827</u>         | <u>1,496,225</u>    |
| Operating income (loss)                 | ( 380,315)               | ( 314,907)          |
| <b>Nonoperating revenues (expenses)</b> | <u>11,163</u>            | <u>14,193</u>       |
| Income (loss) before contributions      | ( 369,152)               | ( 300,714)          |
| <b>Capital contributions</b>            | <u>126,359</u>           | <u>98,169</u>       |
| Change in net position                  | <u>( 242,793)</u>        | <u>( 202,545)</u>   |
| <b>Net position - beginning</b>         | <u>8,032,620</u>         | <u>8,235,165</u>    |
| <b>Net position - ending</b>            | <u>\$ 7,789,827</u>      | <u>\$ 8,032,620</u> |

Total net position decreased by \$242,793 in 2017. The actual water revenue for fiscal year ended September 30, 2017, of \$1,232,696 was \$175,832 lower than the amount budgeted of \$1,408,528.

**Capital Assets and Debt Administration**

**Capital Assets** – The La Porte Area Water Authority's investment in capital assets as of September 30, 2017 amounts to \$4,989,007 (net of accumulated depreciation).

There were not any additions or retirements of capital assets during the current fiscal year. The only activity is current depreciation in the amount of \$466,374. Capital assets at year-end consisted of water, sewer and drainage facilities for water production and distribution in the amount of \$15,477,051.

Additional information of the La Porte Area Water Authority's capital assets can be found in Note V on page 15 of this report.

**Debt Administration** – During the fiscal year, the La Porte Area Water Authority paid off bonded debt secured solely by water and sewer revenues.

Additional information on the Water Authority's long-term debt can be found in Note VI on page 16 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. In the coming fiscal year the Water Authority's budget is expected to remain relatively consistent with the prior year.

### **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 or requests for additional information should be addressed to the Director of Finance, 604 West Fairmont Parkway, La Porte, Texas, 77571.

# LA PORTE AREA WATER AUTHORITY

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

### Assets

#### Current assets:

|  |    |                  |
|--|----|------------------|
| Cash   | \$ | 1,658,771        |
| Investments  |    | 1,139,887        |
| Accounts receivable, net of<br>allowance for doubtful accounts |    | 99,019           |
| Accrued interest receivable                                    |    | <u>3,206</u>     |
| <b>Total current assets</b>                                    |    | <u>2,900,883</u> |

#### Noncurrent assets:

|  |   |                     |
|--|---|---------------------|
| Water production and distribution system |   | 15,477,051          |
| Less: accumulated depreciation           | ( | <u>10,488,044</u> ) |
| <b>Total noncurrent assets</b>           |   | <u>4,989,007</u>    |

### Total Assets

7,889,890

### Liabilities

#### Current liabilities:

|                                  |  |                |
|----------------------------------|--|----------------|
| Accounts payable                 |  | <u>100,063</u> |
| <b>Total current liabilities</b> |  | <u>100,063</u> |

### Total Liabilities

100,063

### Net Position

|                              |    |                         |
|------------------------------|----|-------------------------|
| Investment in capital assets |    | 4,989,007               |
| Unrestricted                 |    | <u>2,800,820</u>        |
| <b>Total Net Position</b>    | \$ | <u><u>7,789,827</u></u> |

The notes to the financial statements are an integral part of this statement.

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# LA PORTE AREA WATER AUTHORITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2017

|  |                     |
|--|---------------------|
| <b>Operating Revenues</b>                    |                     |
| Charges for services                         | \$ 1,232,696        |
| Miscellaneous                                | <u>8,816</u>        |
| <b>Total Operating Revenues</b>              | <u>1,241,512</u>    |
| <b>Operating Expenses</b>                    |                     |
| Supplies                                     | 14,349              |
| Purchased water                              | 1,042,226           |
| Other services and charges                   | 98,878              |
| Depreciation                                 | <u>466,374</u>      |
| <b>Total Operating Expenses</b>              | <u>1,621,827</u>    |
| Operating loss                               | <u>( 380,315)</u>   |
| <b>Nonoperating Revenues (Expenses)</b>      |                     |
| Interest income                              | 17,030              |
| Interest expense and other charges           | <u>( 5,867)</u>     |
| <b>Total Nonoperating Revenue (Expenses)</b> | <u>11,163</u>       |
| Loss before contributions                    | <u>( 369,152)</u>   |
| <b>Capital Contributions</b>                 | <u>126,359</u>      |
| Change in net position                       | <u>( 242,793)</u>   |
| <b>Net Position - Beginning</b>              | <u>8,032,620</u>    |
| <b>Net Position - Ending</b>                 | <u>\$ 7,789,827</u> |

The notes to the financial statements are an integral part of this statement.

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# LA PORTE AREA WATER AUTHORITY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

|   |                   |
|---|-------------------|
| <b>Cash Flows from Operating Activities</b>   |                   |
| Receipts from customers   | \$ 1,286,753      |
| Payments to suppliers and service providers   | ( 1,162,581)      |
| <b>Net Cash Provided by Operating Activities</b>  | <u>124,172</u>    |
| <b>Cash Flows from Capital and Related Financing Activities</b>                               |                   |
| Payments received from participants for capital recovery                                      | 126,359           |
| Principal payments on revenues bonds  | ( 320,000)        |
| Interest paid on revenue bonds  | ( 15,216)         |
| <b>Net Cash Used by Capital and Related Financing Activities</b>                              | <u>( 208,857)</u> |
| <b>Cash Flows from Investing Activities</b>   |                   |
| Purchase of investments   | ( 786,393)        |
| Proceeds from sale of investments   | 491,824           |
| Interest on investments   | <u>15,839</u>     |
| <b>Net Cash Used by Investing Activities</b>  | <u>( 278,730)</u> |
| Net decrease in cash and cash equivalents   | ( 363,415)        |
| <b>Cash and Cash Equivalents - Beginning of Year</b>  | <u>2,022,186</u>  |
| <b>Cash and Cash Equivalents - End of Year</b>  | <u>1,658,771</u>  |
| <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>         |                   |
| Operating loss  | \$( 380,315)      |
| Adjustments to reconcile operating income to net cash provide (used) by operating activities: |                   |
| Depreciation expense  | 466,374           |
| (Increase) decrease in accounts receivable  | 45,241            |
| Increase (decrease) in accounts payable   | ( 7,128)          |
| <b>Net Cash Provided by Operating Activities</b>  | <u>\$ 124,172</u> |

The notes to the financial statements are an integral part of this statement.

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# LA PORTE AREA WATER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The La Porte Area Water Authority (the “Authority”) was created on May 30, 1981 by Chapter 729, Page 2678, Acts of the 67<sup>th</sup> 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.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

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.

#### 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 accounting for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are presented on the statement of net position in a classified format to distinguish between current and long-term assets and liabilities. Net position is presented in three components: net investment in capital assets; restricted; and unrestricted.

### **D. Cash and Investments**

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

Investments for the Authority are reported at fair value, except for the position in investment pools. The Authority's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

### **E. Capital Assets**

The Authority defines capital assets with an initial, individual cost of \$5,000 or greater and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are recorded at their acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. Capital assets consist of a water production and distribution system. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

### **F. Operating and Nonoperating Revenues and Expenses**

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

## **G. Net Position Flow Assumption**

Sometimes the Authority will fund outflows for a particular purpose from both restricted (e.g., restricted bonds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the Authority’s financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **H. Estimates**

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

## **II. 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 fund 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 securities held by the City’s financial institution in the City’s name as of September 30, 2017.

## **III. TEMPORARY INVESTMENTS**

Temporary investments represent the Authority’s equity interest in the City’s investment pool. The carrying amount for temporary investments, at September 30, 2017, was \$1,139,887. This represents 3.57% of the City’s total portfolio.

Pooled investments with the City consist of obligations of the United States and its agencies 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. Interest earnings are allocated on a pro-rata basis.

TexPool and Logic have a redemption notice period of one day and may redeem daily. The investment pool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool’s liquidity.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority had recurring fair value measurements as of September 30, 2017. U.S. Treasury securities of \$1,139,887 were valued using a documented trade history in exact security pricing model (Level 2 inputs).

### ***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 overage maturity for the pooled fund group 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 (months)</u> |
|--|---|
| TexPool  | 34.00                                     |
| Logic  | 42.00                                     |
| Federal Home Loan Mortgage Corporation (FHLMC) | 28.64                                     |
| Federal Farm Credit Bank (FFCB)                | 27.02                                     |
| Federal Home Loan Bank (FHLB)                  | 27.21                                     |
| Portfolio Weighted Average Maturity            | 22.70                                     |

### ***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, 2017, the Authority's investment portfolio consisted of the following investments:

| <u>Investment Type</u>        | <u>Percentage of Total Portfolio</u> |
|-------------------------------|--------------------------------------|
| Public funds investment pools | 59.00 %                              |
| US Agency securities          | 41.00 %                              |
|                               | <u>100.00 %</u>                      |

### ***Credit Risk***

At year end balances in TexPool, a privately managed public fund investment pool, was rated AAAM by Standard & Poor's and balances in LOGIC, a privately managed public funds investment pool was rated AAAM by Standards & Poor's.

Federal Home Loan Mortgage Corporation notes, Federal Home Loan Banks bonds, Farmer Mac and Federal Farm Credit Bank notes were rated AA+ by Standard & Poor's.

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

**IV. CAPITAL ASSETS**

An analysis of changes in physical facilities for the year ended September 30, 2017 follows:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Deletions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital assets being depreciated:           |                              |                     |                  |                           |
| Water production and distribution system    | \$ 15,477,051                | \$ -                | \$ -             | \$ 15,477,051             |
| Less accumulated depreciation:              |                              |                     |                  |                           |
| Water production and distribution system    | ( 10,021,670)                | ( 466,374)          | -                | ( 10,488,044)             |
| Total capital assets being depreciated, net | <u>\$ 5,455,381</u>          | <u>\$( 466,374)</u> | <u>\$ -</u>      | <u>\$ 4,989,007</u>       |
| Investment in capital assets from:          |                              |                     |                  |                           |
| Contribution by participants                | <u>\$ 5,455,381</u>          | <u>\$( 466,374)</u> | <u>\$ -</u>      | <u>\$ 4,989,007</u>       |

\* Depreciation expense of \$466,374 charged to water services function/program.

**V. 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. Revenue bonds outstanding at year end were zero.

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.

## VI. 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 for \$2.95 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 position. 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 each year to maturity. The Authority is in compliance with all significant requirements and restrictions contained in the bond resolution. None of the Refunded Bonds are outstanding at September 30, 2017.

The Authority had no outstanding bonds payable at September 30, 2017. Bonds payable activity for the year ended September 30, 2017 was as follows:

| <u>Bonds Payable</u>       | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements &amp; Adjustments</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|----------------------------|--------------------------|------------------|--------------------------------------|-----------------------|------------------------------------|
| Contract revenue refunding | \$ 320,000               | \$ -             | \$ 320,000                           | \$ -                  | \$ -                               |
| Premium on bonds           | <u>7,879</u>             | <u>-</u>         | <u>7,879</u>                         | <u>-</u>              | <u>-</u>                           |
|                            | <u>\$ 327,879</u>        | <u>\$ -</u>      | <u>\$ 327,879</u>                    | <u>\$ -</u>           | <u>\$ -</u>                        |

## VII. NET POSITION

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.

During the year, Authority’s billings were applied as follows:

|  |                     |
|--|---------------------|
| Water supplied and operating costs (user fees) | \$ 1,232,696        |
| Capital recovery billings                      | <u>126,359</u>      |
| Total billings                                 | <u>\$ 1,359,055</u> |

## **VIII. 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 post three fiscal years.

## **IX. 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.

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**LA PORTE AREA WATER AUTHORITY**

**SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT**

**SEPTEMBER 30, 2017**

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

- 1. Schedule of Services and Rates
- 2. Schedule of Enterprise Fund Expenses
- 3. Schedule of Temporary Investments
- 4. Taxed Levied and Receivable (Omitted – no tax levy)
- 5. Long-Term Debt Service Requirements by Years (Omitted – no long-term debt service requirements)
- 6. Changes in Long-Term Bonded Debt
- 7. Comparative Schedule of Revenues and Expenses – Enterprise Fund – Five Years
- 8. Board Members, Key Personnel and Consultants
- 9. Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, Budgetary Basis

**LA PORTE AREA WATER AUTHORITY**

**SCHEDULE OF SERVICE AND RATES**

**YEAR ENDED SEPTEMBER 30, 2017**

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"/> Participants in joint venture, regional system, 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>1,331,708,000</u> | Water Accountability Ratio:     |
| Gallons billed to customers: | <u>1,341,463,000</u> | (Gallons billed/Gallons pumped) |
|                              |                      | 99.3%                           |

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 the 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 the 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**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

|   |                     |
|---|---------------------|
| <b>Professional Fees</b>                    |                     |
| Auditing                                    | \$ 6,000            |
| Other                                       | 14,612              |
| <b>Purchased Service for Resale</b>         |                     |
| Bulk water purchase                         | 1,042,226           |
| <b>Contracted Services</b>                  |                     |
| Management/operations (primary government)  | 68,931              |
| <b>Administrative Expenses</b>              |                     |
| Supplies                                    | 14,349              |
| Other administrative                        | 9,335               |
| <b>Other Expenses</b>                       |                     |
| Depreciation                                | <u>466,374</u>      |
| <b>Total Expenses</b>                       | <u>\$ 1,621,827</u> |
| Number of persons employed by the Authority | -                   |

## LA PORTE AREA WATER AUTHORITY

## SCHEDULE OF TEMPORARY INVESTMENTS

## FOR THE YEAR ENDED SEPTEMBER 30, 2017

|  | <u>Interest<br/>Rate*</u> | <u>Maturity<br/>Date</u> | <u>Balance<br/>at End<br/>of Year</u> | <u>Accrued<br/>Interest<br/>Receivable</u> |
|--|---------------------------|--------------------------|---------------------------------------|--|
| Equity interest in City of<br>La Porte's investment pool | 0.042%                    | Demand                   | \$ 1,139,887                          | \$ 3,206                                   |

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 2017.

## LA PORTE AREA WATER AUTHORITY

## CHANGES IN LONG-TERM BONDED DEBT

SEPTEMBER 30, 2017

|                                      | <u>Series<br/>2010</u> | <u>Total</u>    |
|--------------------------------------|------------------------|-----------------|
| Interest rate                        | 2.24% to 4.0%          | N/A             |
| Dates interest payable               | 03/15; 09/15           | N/A             |
| Maturity dates                       | 03/15/11-03/15/17      | N/A             |
| Beginning bonds outstanding          | \$ 320,000             | \$ 320,000      |
| Bonds sold during the fiscal year    | -                      | -               |
| Bonds retired during the fiscal year | ( 320,000)             | ( 320,000)      |
| Ending bonds outstanding             | <u>\$ -</u>            | <u>\$ -</u>     |
| Interest paid during the fiscal year | <u>\$ 5,867</u>        | <u>\$ 5,867</u> |

Paying Agent's Name and City:

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

| <u>Bond Authority</u>      | <u>Tax<br/>Bonds*</u> | <u>Contract<br/>Revenue<br/>Bonds</u> | <u>Refunding<br/>Bonds</u> |
|----------------------------|-----------------------|---------------------------------------|----------------------------|
| Amount authorized by votes | \$ -                  | 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 revenue. Bonds in this category may also be secured with other revenues in combination with taxes.

Cash and temporary investment balances as of September 30, 2017: \$ 2,798,658

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ -

## LA PORTE AREA WATER AUTHORITY

### COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - ENTERPRISE FUND - FIVE YEARS

#### FOR THE YEAR ENDED SEPTEMBER 30, 2017

|  | 2017         | 2016         | 2015         | 2014         | 2013         |
|--|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues                     |              |              |              |              |              |
| User fees                              | \$ 1,241,512 | \$ 1,181,318 | \$ 1,106,779 | \$ 1,195,886 | \$ 1,213,334 |
| Operating Expenses                     |              |              |              |              |              |
| Supplies                               | 14,349       | 4,863        | 7,985        | 1,015        | 8,090        |
| Purchased water                        | 1,042,226    | 939,140      | 829,346      | 850,142      | 999,647      |
| Services and charges                   | 98,878       | 86,535       | 379,535      | 95,976       | 95,106       |
| Depreciation                           | 466,374      | 465,687      | 464,999      | 465,000      | 464,999      |
| Total Operating Expenses               | 1,621,827    | 1,496,225    | 1,681,865    | 1,412,133    | 1,567,842    |
| Operating Income (Loss)                | ( 380,315)   | ( 314,907)   | ( 575,086)   | ( 216,247)   | ( 354,508)   |
| Nonoperating Revenues (Expenses)       |              |              |              |              |              |
| Interest income                        | 17,030       | 16,797       | 12,663       | 4,854        | 4,362        |
| Interest expense and other             | ( 5,867)     | ( 2,604)     | ( 21,737)    | ( 38,638)    | ( 53,566)    |
| Total Nonoperating Revenues (Expenses) | 11,163       | 14,193       | ( 9,074)     | ( 33,784)    | ( 49,204)    |
| Income (Loss) Before Contributions     | ( 369,152)   | ( 300,714)   | ( 584,160)   | ( 250,031)   | ( 403,712)   |
| Capital Contributions                  | 126,359      | 98,169       | 787,285      | 784,737      | 793,854      |
| Net Income (Loss)                      | \$( 242,793) | \$( 202,545) | \$ 203,125   | \$ 534,706   | \$ 390,142   |

EXHIBIT 7

| <u>2017</u>        | <u>2016</u>        | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| 100.00 %           | 100.00 %           | 100.00 %           | 100.00 %           | 100.00 %           |
| 1.16 %             | 0.41 %             | 0.72 %             | 8.00 %             | 0.67 %             |
| 83.95 %            | 79.50 %            | 74.93 %            | 71.09 %            | 82.39 %            |
| 7.96 %             | 7.33 %             | 34.29 %            | 8.03 %             | 7.84 %             |
| <u>37.57 %</u>     | <u>39.42 %</u>     | <u>42.01 %</u>     | <u>38.88 %</u>     | <u>38.32 %</u>     |
| <u>130.63 %</u>    | <u>126.66 %</u>    | <u>151.96 %</u>    | <u>118.07 %</u>    | <u>129.22 %</u>    |
| ( <u>30.63</u> ) % | ( <u>26.66</u> ) % | ( <u>51.96</u> ) % | ( <u>18.07</u> ) % | ( <u>29.22</u> ) % |
| 1.37 %             | 1.42 %             | 1.14 %             | 0.41 %             | 0.36 %             |
| ( <u>0.47</u> ) %  | ( <u>0.22</u> ) %  | ( <u>1.96</u> ) %  | ( <u>3.23</u> ) %  | ( <u>4.41</u> ) %  |
| <u>0.90 %</u>      | <u>1.20 %</u>      | <u>0.82 %</u>      | ( <u>2.84</u> ) %  | ( <u>4.06</u> ) %  |
| ( <u>29.73</u> ) % | ( <u>25.46</u> ) % | 52.78 %            | ( <u>20.19</u> ) % | ( <u>33.27</u> ) % |
| <u>10.18 %</u>     | <u>8.31 %</u>      | <u>71.13 %</u>     | <u>65.62 %</u>     | <u>65.43 %</u>     |
| ( <u>19.56</u> ) % | ( <u>17.15</u> ) % | <u>18.35 %</u>     | <u>44.71 %</u>     | <u>32.15 %</u>     |

**LA PORTE AREA WATER AUTHORITY**  
**BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Authority's Mailing Address:                   City of La Porte  
   Michael Dolby  
   604 W. Fairmont Parkway  
   La Porte, Texas 77571

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

| <u>Name and Address</u>                                 | <u>Term of Office/<br/>Appointed/<br/>Expires</u> | <u>Expense<br/>Reimbursements</u> | <u>Title at<br/>Year End</u> |
|---|---|-----------------------------------|------------------------------|
| <b><i>Board Members</i></b>                             |   |                                   |                              |
| Charlie Perry<br>129 N 4th Street<br>La Porte, TX 77571 | 8/31/2016<br>Yes<br>8/31/2018                     | \$ -                              | Secretary<br>Position 4      |
| Doug Martin<br>1103 Oak Leaf<br>La Porte, TX 77571      | 8/31/2017<br>Yes<br>8/31/2019                     | -                                 | Vice President<br>Position 3 |
| Randy Woodard<br>2601 S. Broadway<br>La Porte, TX 77571 | 8/31/2017<br>Yes<br>8/31/2019                     | -                                 | Member<br>Position 1         |
| Ken Schlather<br>9811 Catlett<br>La Porte, TX 77571     | 8/31/2016<br>Yes<br>8/31/2018                     | -                                 | President<br>Position 5      |
| Stephen Barr<br>810 Fairfield<br>La Porte, TX 77571     | 8/31/2017<br>Yes<br>8/31/2019                     | -                                 | Member<br>Position 2         |

***Key Administrative Personnel***

|                 |                     |
|-----------------|---------------------|
| Corby Alexander | 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.

**LA PORTE AREA WATER AUTHORITY**  
**BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| <b>Name and Address</b>   | <b>Date Hired</b> | <b>Fees and Expense Reimbursements</b> | <b>Title</b>        |
|---|-------------------|--|---------------------|
| <i>Consultants</i>  |                   |  |                     |
| City of La Porte<br>604 W. Fairmont Parkway<br>La Porte, TX 77571                                   | 1981              | \$ 67,626                              | Management/Operator |
| Pattillo, Brown & Hill, L.L.P.<br>401 West Hwy 6<br>Waco, Texas 76710                               | 2015              | 6,000                                  | Auditor             |
| The Bank of New York<br>Global Corporate Trust<br>2001 Bryan Street, 10th Floor<br>Dallas, TX 75201 | 1999              | -                                      | Paying Agent        |

## LA PORTE AREA WATER AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL - BUDGETARY BASIS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

|   | Budget              |                     | Actual<br>(Budgetary<br>Basis) | Variance From<br>Final Budget<br>Over (Under) |
|---|---------------------|---------------------|--------------------------------|---|
|   | Original            | Final               |                                |   |
| <b>Revenues</b>                               |                     |                     |                                |   |
| Water revenue billing                         | \$ 1,408,528        | \$ 1,408,528        | \$ 1,232,696                   | \$ ( 175,832)                                 |
| <b>Total Revenues</b>                         | <u>1,408,528</u>    | <u>1,408,528</u>    | <u>1,232,696</u>               | <u>( 175,832)</u>                             |
| <b>Operating Expenses</b>                     |                     |                     |                                |   |
| Supplies                                      | 6,800               | 6,800               | 14,349                         | ( 7,549)                                      |
| Purchased water                               | 1,264,467           | 1,264,467           | 1,042,226                      | 222,241                                       |
| Other services and charges                    | 110,535             | 110,535             | 98,878                         | 11,657  |
| Depreciation                                  | -                   | -                   | 466,374                        | ( 466,374)                                    |
| <b>Total Operating Expenses</b>               | <u>1,381,802</u>    | <u>1,381,802</u>    | <u>1,621,827</u>               | <u>( 240,025)</u>                             |
| Operating Income (Loss)                       | <u>26,726</u>       | <u>26,726</u>       | <u>( 389,131)</u>              | <u>( 415,857)</u>                             |
| <b>Nonoperating Revenues (Expenses)</b>       |                     |                     |                                |   |
| Interest income                               | 10,000              | 10,000              | 17,030                         | 7,030   |
| Interest expense and other charges            | -                   | -                   | ( 5,867)                       | ( 5,867)                                      |
| <b>Total Nonoperating Revenues (Expenses)</b> | <u>10,000</u>       | <u>10,000</u>       | <u>11,163</u>                  | <u>1,163</u>                                  |
| Income (Loss) Before Contributions            | 36,726              | 36,726              | ( 377,968)                     | ( 414,694)                                    |
| <b>Capital Contributions</b>                  | <u>126,359</u>      | <u>126,359</u>      | <u>126,359</u>                 | <u>-</u>                                      |
| Change in Net Position                        | 163,085             | 163,085             | ( 251,609)                     | ( 414,694)                                    |
| <b>Net Position - Beginning</b>               | <u>8,032,620</u>    | <u>8,032,620</u>    | <u>8,032,620</u>               | <u>-</u>                                      |
| <b>Net Position - Ending</b>                  | <u>\$ 8,195,705</u> | <u>\$ 8,195,705</u> | <u>\$ 7,781,011</u>            | <u>\$ ( 414,694)</u>                          |