

LA PORTE AREA WATER AUTHORITY

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

For the Year Ended September 30, 2018

LA PORTE AREA WATER AUTHORITY
TABLE OF CONTENTS

	Exhibit	Page
Report of Independent Auditors		1
Management’s Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Position	B-1	10
Statement of Revenues, Expenses and Changes in Net Position	B-2	11
Statement of Cash Flows	B-3	12
Notes to the Financial Statements	C-1	13
Supplementary Information	Schedule	
Texas Supplementary Information:		21
Schedule of Service and Rates	1	22
Schedule of Enterprise Fund Expenses	2	23
Schedule of Temporary Investments	3	25
Comparative Schedule of Revenues and Expenses, Enterprise Fund - Five Years	7	26
Board Members, Key Personnel and Consultants	8	28
Schedule of Revenues and Expenses and Changes in Net Position- Budget and Actual	9	30

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2018, 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Texas Supplementary Information and the Schedule of Revenues and Expenses and Changes in Net Position - Budget to Actual (the "supplementary information") are presented for purposes of additional analysis and are not required part of the basic financial statements.

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

Whitley Penn LLP

Houston, Texas
February 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

LA PORTE AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the La Porte Area Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2018.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,342,017 (net position). Of this amount, \$2,819,384, unrestricted net position, may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the Authority's fund designation and fund policies.
- The Authority's total net position decreased by \$447,810.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Authority's basic financial statements. The Authority is considered a component unit of the City of La Porte, Texas (the "City") since the Authority provides approximately 86% of its services for the exclusive benefit of the City. The 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 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 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 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 Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Authority'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. 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 DISCUSSIONS 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 Authority's operations. Required supplementary information can be found on pages 23-32 of this report.

Financial Analysis of the Authority'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 Authority, assets exceeded liabilities by \$7,342,017 at the close of the fiscal year.

The largest portion of the Authority's net position \$4,522,633 reflects its investment in capital assets (e.g., water production and distribution system). The Authority uses these capital assets to provide water services to the participants; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net position of \$2,819,384 represents funds available to meet other ongoing obligations to participants and/or creditors.

La Porte Area Water Authority's Net Position

	Business-Type Activities	
	2018	2017
	<hr/>	<hr/>
Current and other assets	\$ 2,907,471	\$ 2,900,883
Capital assets	4,522,633	4,989,007
Total Assets	<hr/> 7,430,104 <hr/>	<hr/> 7,889,890 <hr/>
Current liabilities	88,087	100,063
Total Liabilities	<hr/> 88,087 <hr/>	<hr/> 100,063 <hr/>
Net Position:		
Investment in capital assets	4,522,633	4,989,007
Unrestricted	2,819,384	2,800,821
Total Net Position	<hr/> <hr/> \$ 7,342,017 <hr/> <hr/>	<hr/> <hr/> \$ 7,789,828 <hr/> <hr/>

LA PORTE AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSIONS AND ANALYSIS (continued)

Analysis of the Authority's Operations - the following table provides a summary of the Authority's operations for the year ended September 30, 2018.

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

	Business-Type Activities	
	2018	2017
Operating revenues:		
Charges for services	\$ 1,320,816	\$ 1,232,696
Miscellaneous revenues		8,816
Total operating revenues	<u>1,320,816</u>	<u>1,241,512</u>
Operating expenses:		
Supplies	15,432	14,349
Purchased water	1,338,757	1,042,226
Services and charges	107,600	98,878
Depreciation	466,374	466,374
Total operating expenses	<u>1,928,163</u>	<u>1,621,827</u>
Operating income (loss)	(607,347)	(380,315)
Nonoperating revenues (expenses)	<u>33,178</u>	<u>11,163</u>
Income (loss) before contributions	(574,169)	(369,152)
Capital contributions	<u>126,359</u>	<u>126,359</u>
Change in net position	(447,810)	(242,793)
Net Position - Beginning	<u>7,789,827</u>	<u>8,032,620</u>
Net Position - Ending	<u>\$ 7,342,017</u>	<u>\$ 7,789,827</u>

Total net position decreased by \$447,810 in 2018. The actual water revenue for the fiscal year ended September 30, 2018, of \$1,320,816 was lower than the amount budgeted of \$1,446,658 by \$125,842

LA PORTE AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSIONS AND ANALYSIS (continued)

Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2018 amounts to \$4,522,633 (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 \$466,374. Capital assets at year-end consisted of the following:

	<u>Ending Balance</u>
Water, sewer and drainage facilities:	
Water production and distribution system	\$ 4,522,633
	<u>\$ 4,522,633</u>

Additional information of the Authority's capital assets can be found in Note 4 on page 17 of this report.

Debt Administration - At the end of the fiscal year, the Authority had no bonded debt.

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 prior year.

Request for Information

This financial report is designed to provide a general overview of the 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.

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BASIC FINANCIAL STATEMENTS

LA PORTE AREA WATER AUTHORITY

STATEMENT OF NET POSITION

September 30, 2018

Assets

Current assets:

Cash	\$ 56,880
Investments	2,728,336
Accounts receivable, net of allowance for doubtful accounts	117,200
Accrued interest receivable	5,055

Total current assets 2,907,471

Noncurrent assets:

Water production and distribution system	15,477,051
Less: accumulated depreciation	(10,954,418)

Total noncurrent assets 4,522,633

Total Assets \$ 7,430,104

Liabilities

Current liabilities:

Accounts payable	\$ 88,087
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Total current liabilities 88,087

Total Liabilities 88,087

Net Position

Net investment in capital assets 4,522,633

Unrestricted 2,819,384

Total net position \$ 7,342,017

See Notes to the Financial Statements.

LA PORTE AREA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended September 30, 2018

Operating Revenues	
Charges for services	\$ 1,320,816
Total operating revenues	<u>1,320,816</u>
Operating Expenses	
Supplies	15,432
Purchased water	1,338,757
Other services and charges	107,600
Depreciation	466,374
Total operating expenses	<u>1,928,163</u>
Operating income (loss)	<u>(607,347)</u>
Nonoperating Revenues (Expenses)	
Interest income	33,178
Total nonoperating revenue (expenses)	<u>33,178</u>
Income (loss) before contributions	(574,169)
Capital contributions	<u>126,359</u>
Change in net position	(447,810)
Net Position - Beginning	7,789,827
Net Position- Ending	<u><u>\$ 7,342,017</u></u>

See Notes to the Financial Statements.

LA PORTE AREA WATER AUTHORITY**STATEMENT OF CASH FLOWS***For the Year Ended September 30, 2018***Cash Flows from Operating Activities**

Receipts from customers	\$ 1,302,635
Payments to suppliers	(1,473,765)
Net cash provided (used) by operating activities	<u>(171,130)</u>

Cash Flows from Investing Activities

Purchase of investments	(1,721,485)
Proceeds from sale of investments	255,697
Interest and dividends	35,027
Net cash provided (used) by investing activities	<u>(1,430,761)</u>

Net (decrease) in cash and cash equivalents (1,601,891)

Balances - beginning of the year 1,658,771

Balances - end of the year \$ 56,880

Reconciliation of operating income (loss) to net cash provided (used)**by operating activities:**

Operating income (loss)	\$ (607,347)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	466,374
Change in assets and liabilities:	
Receivables, net	(18,181)
Accounts payable	(11,976)
Net Cash provided (used) by operating activities	<u>\$ (171,130)</u>

Reconciliation of total cash and cash investments:

Current Assets - cash and cash equivalents	\$ 56,880
Total cash and cash equivalents	<u>\$ 56,880</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) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

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 Authority is considered a component unit of the City of La Porte, Texas (the “City”) 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. 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 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 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. Enterprise fund operating statements present increases (e.g., revenues), decreases (e.g., expenses) and changes in net position.

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, Cash Equivalents and Investments

Cash is defined as currency, demand deposits with banks and other financial institutions, and any other kind of account that has the general characteristics of demand deposits where funds may be added or withdrawn at any time without penalty or prior notice. Cash equivalents are defined as liquid investments that are both readily convertible to known amounts of cash and so near their maturity they present insignificant risk or changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition.

The Authority reports all investments at fair-value, except for investment positions in external investment pools, such as Texas CLASS, TexPool and LOGIC, which are reported at amortized cost. The Texas CLASS Board of Trustees, which is comprised of active members of the pool and elected by the participants guided by the Advisory Board, oversees the management of Texas CLASS. The State Comptroller of Public Accounts oversees TexPool. LOGIC is directed by a governing board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services. Federated Investors is the full service provider to the pools managing the assets providing participant services, and arranging for all custody and other functions in support of the pool's operations under contract with the Comptroller.

The Authority's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

The Authority reports all investments, except external investment pools, at fair value based on quoted market prices at year-end date. The Authority categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as, reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, allowance for doubtful accounts, and other accounts. Actual results may differ from these estimates.

Note 3 - Cash, Cash Equivalents and Investments

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, 2018.

Note 3 - Cash, Cash Equivalents and Investments (continued)

At September 30, 2018, the reported amount of the Authority's deposits was \$56,880 and the bank balance was \$56,880. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

The Authority's investments fair value measurement are as follows as of September 30, 2018

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. Agency securities	\$ 1,342,412	\$	\$ 1,342,412	\$
	\$ 1,342,412	\$	\$ 1,342,412	\$

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 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>Fair Value / Amortized Cost</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity (Days)</u>
U.S. Agency securities			
FHLMC	\$ 517,327	19%	252
FHLB	634,012	23%	415
FFCB	191,073	7%	200
Local government investment pools			
Texpool	451,392	17%	28
Texas CLASS	64,514	2%	55
LOGIC	870,018	32%	34
Total fair value	\$ 2,728,336	100%	
Portfolio weighted average maturity			175

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, 2018, the Authority's investment portfolio is shown in the table above.

Note 3 - Cash, Cash Equivalents and Investments (continued)

Credit risk. State law and the Authority's investment policy limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2018, the Authority's investments were in compliance with State law and the Authority's investment policy as noted in the table on the following page.

<u>Investment Type</u>	<u>Fair Value/ Amortized Cost</u>	<u>Credit Quality Rating</u>
Local Government Investment Pools:		
Texpool	\$ 451,392	AAAm
Texas CLASS	64,514	AAAm
LOGIC	870,018	AAAm
Total Local Government Investments Pools	<u>1,385,924</u>	
U.S. Agency Securities:		
FHLMC	517,327	AA+
FHLB	634,012	AA+
FFCB	191,073	AA+
Total U.S. Agency Securities	<u>1,342,412</u>	
Total Investments	<u>\$ 2,728,336</u>	

Note 4 - Capital Assets

An analysis of changes in physical facilities for the year ended September 30, 2018 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Water production and distribution system	\$ 15,477,051	\$	\$	\$ 15,477,051
Less accumulated depreciation for:				
Water production and distribution system	(10,488,044)	(466,374)		(10,954,418)
Total capital assets being depreciated, net	<u>4,989,007</u>	<u>(466,374)</u>		<u>4,522,633</u>
Investment in capital assets from:				
Contributions by participants	\$ 4,989,007	\$ (466,374)	\$	\$ 4,522,633

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

Note 5 - 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 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.

Note 6 - Fund Net Position

The Authority provides surface water to 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 fund operations of the Authority in relation to their capacity rights and to purchase water based on actual consumption.

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

Water Supplied and Operating costs(User fees)	\$ 1,320,816
Capital recovery billings	126,359
Total Billings	<u><u>\$ 1,447,175</u></u>

Note 7 - 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 8 - Economic Dependency

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

SUPPLEMENTARY INFORMATION

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LA PORTE AREA WATER AUTHORITY
SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
September 30, 2018

Texas Supplementary Information Requirements

(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. Taxes 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 (Omitted – no changes in long-term debt)
- 7. Comparative Schedule of Revenues and Expenses, Enterprise Fund – Five Years
- 8. Board Members, Key Personnel and Consultants
- 9. Schedule of Revenues and Expenses and Changes in Net Position - Budget and Actual

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF SERVICE AND RATES
Year ended September 30, 2018

SCHEDULE 1

1. Services provided by the Authority:

<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 authority does not provide water)

Gallons pumped into system (unaudited):	<u>1,465,410,000</u>	Water Accountability Ratio:
		(Gallons billed/Gallons pumped)
Gallons billed to customers (unaudited):	<u>1,429,746,000</u>	<u>97.6%</u>

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

4. Location of Authority:

County in which the Authority is located: Harris County

Is the Authority located entirely within one county? Yes No

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

City in Authority 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
For the Year Ended September 30, 2018

SCHEDULE 2

Professional Fees	
Auditing	\$ 6,000
Other	4,969
Purchased Service for Resale	
Bulk water purchase	1,338,757
Contracted Services	
Management/operation (primary government)	71,144
Administrative Expenses	
Supplies	15,432
Other administrative	25,487
Other Expenses	
Depreciation	<u>466,374</u>
Total Expenses	<u><u>\$ 1,928,163</u></u>
Number of persons employed by the District	-

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LA PORTE AREA WATER AUTHORITY
SCHEDULE OF TEMPORARY INVESTMENTS
Year ended September 30, 2018

SCHEDULE 3

	<u>Interest Rate*</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Accrued Interest Receivable</u>
Equity interest in City's investment pool	1.60%	Demand	\$ 2,728,336	\$ 5,055

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 policy.

*Approximate return for September 2018.

LA PORTE AREA WATER AUTHORITY**COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES, ENTERPRISE FUND - FIVE YEARS***For the year-ended September 30, 2018*

	AMOUNTS				
	2018	2017	2016	2015	2014
Operating Revenues					
User fees	\$ 1,320,816	\$ 1,241,512	\$ 1,181,318	\$ 1,106,779	\$ 1,195,886
Operating Expenses					
Supplies	15,432	14,349	4,863	7,985	1,015
Purchased water	1,338,757	1,042,226	939,140	829,346	850,142
Services and charges	107,600	98,878	86,535	379,535	95,976
Depreciation	466,374	466,374	465,687	464,999	465,000
Total Operating Expenses	1,928,163	1,621,827	1,496,225	1,681,865	1,412,133
Operating Income (Loss)	(607,347)	(380,315)	(314,907)	(575,086)	(216,247)
Nonoperating Revenues (Expenses)					
Interest income	33,178	17,030	16,797	12,663	4,854
Interest expense		(5,867)	(2,604)	(21,737)	(38,638)
Net nonoperating Revenues (Expenses)	33,178	11,163	14,193	(9,074)	(33,784)
Income (loss) Before Contributions and Operating Transfers	(574,169)	(369,152)	(300,714)	(584,160)	(250,031)
Capital Contributions	126,359	126,359	98,169	787,285	784,737
Net Income (Loss)	\$ (447,810)	\$ (242,793)	\$ (202,545)	\$ 203,125	\$ 534,706

See Accompanying Auditor's Report.

SCHEDULE 7

PERCENT OF TOTAL REVENUES				
2018	2017	2016	2015	2014
100.00%	100.00%	100.00%	100.00%	100.00%
1.17%	1.16%	0.41%	0.72%	0.08%
101.36%	83.95%	79.50%	74.93%	71.09%
8.15%	7.96%	7.33%	34.29%	8.03%
35.31%	37.57%	39.42%	42.01%	38.88%
145.97%	130.63%	126.66%	151.96%	118.08%
-45.97%	-30.63%	-26.66%	-51.96%	-18.08%
2.51%	1.37%	1.42%	1.14%	0.41%
0.00%	-0.47%	-0.22%	-1.96%	-3.23%
2.50%	0.90%	1.20%	-0.82%	-2.84%
-43.47%	-29.73%	-25.46%	-52.78%	-20.91%
9.57%	10.18%	8.31%	71.13%	65.62%
-33.90%	-19.56%	-17.15%	18.34%	44.71%

LA PORTE AREA WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 September 30, 2018

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/ Appointed/ Expires</u>	<u>Expense Reimbursements</u>	<u>Title at Year End</u>
<i>Board Members</i>			
Stephen Barr 810 Fairfield La Porte, TX 77571	8/31/2017 Yes 8/31/2019	\$ -	President Position 2
Doug Martin 1103 Oak Leaf La Porte, TX 77571	8/31/2017 Yes 8/31/2019	-	Vice President Position 3
Stephanie Bellew 10928 Mesquite Drive La Porte, TX 77571	8/31/2018 Yes 8/31/2020	-	Member Position 4
Ken Schlather 9811 Catlett La Porte, TX 77571	8/31/2016 Yes 8/31/2018	-	Member Position 5
Cambria Beasley 2802 Crescent Drive La Porte, TX 77571	8/31/2017 Yes 8/31/2019	-	Secretary Position 1

Key Administrative Personnel

Corby Alexander General Manager
 Michael Dolby Director of Finance

<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	\$69,114	Management/ Operator
Whitley Penn, LLP 3737 Buffalo Speedway, Suite 1600 Houston, Texas 77098	2018	\$6,000	Auditor

LA PORTE AREA WATER AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
Year Ended September 30, 2018

SCHEDULE 9

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget</u>
Revenues				
Water revenue billing	\$ 1,446,658	\$ 1,446,658	\$ 1,320,816	\$ (125,842)
Total Revenues	<u>1,446,658</u>	<u>1,446,658</u>	<u>1,320,816</u>	<u>(125,842)</u>
Operating Expenses				
Supplies	9,200	15,936	15,432	504
Purchased water	1,264,467	1,514,193	1,338,757	175,436
Other services and charges	296,076	289,340	107,600	181,740
Depreciation	-	-	466,374	(466,374)
Total Operating Expenses	<u>1,569,743</u>	<u>1,819,469</u>	<u>1,928,163</u>	<u>(108,694)</u>
Operating Income (Loss)	<u>(123,085)</u>	<u>(372,811)</u>	<u>(607,347)</u>	<u>(234,536)</u>
Nonoperating Revenues (Expenses)				
Interest income	18,000	18,000	33,178	15,178
Total Nonoperating Revenues (Expenses)	<u>18,000</u>	<u>18,000</u>	<u>33,178</u>	<u>15,178</u>
Income (Loss) Before Contributions	(105,085)	(354,811)	(574,169)	(219,358)
Capital contributions	<u>126,359</u>	<u>126,359</u>	<u>126,359</u>	
Change in net position	21,274	(228,452)	(447,810)	(219,358)
Net Position - Beginning	<u>7,789,827</u>	<u>7,789,827</u>	<u>7,789,827</u>	
Total Net Position- Ending	<u>\$ 7,811,101</u>	<u>\$ 7,561,375</u>	<u>\$ 7,342,017</u>	<u>\$ (219,358)</u>