

**GULF COAST WATER AUTHORITY**

**FINANCIAL STATEMENTS**

**August 31, 2012**



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## **FINANCIAL SECTION**



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Gulf Coast Water Authority  
Texas City, Texas

We have audited the accompanying financial statements of the business-type activities and each major fund of the Gulf Coast Water Authority (the "Authority"), as of and for the year ended August 31, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority, as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script, appearing to read "Sugar Land & Co.", is positioned above the typed text.

Sugar Land, Texas  
November 22, 2012



# **GULF COAST WATER AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Authority's total assets were \$176,993,279; of this amount, \$123,795,457 represents net capital assets and \$48,435,644 represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$53,586,117 of which \$45,772,644 accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by \$123,407,162. This amount represents net assets; of this amount, \$71,596,314 is invested in capital assets – net of related debt. An additional \$5,661,833 is under restricted net assets and the remaining \$46,149,015 represents unrestricted net assets.
- Operating revenues for the Authority at year-end were \$35,588,001 and exceeded operating expenses by \$2,228,032.
- Non-operating expenses exceeded non-operating revenues by \$1,605,900. This was primarily attributable to interest expense paid on bonds that totaled \$1,614,841 as of year-end.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include two components: 1) business-type financial statements, and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

## **ENTERPRISE FUNDS**

Enterprise Funds are used to report the same functions presented as business-type activities in the basic financial statements. The Authority's major Enterprise Funds are presented by division as follows:

- Industrial Division
- League City Southeast Plant
- Water Treatment Plant
- Canal Division
- 1998 A-B South Projects
- 1998 C Series Texas City Projects
- 2002 Galveston Projects
- Chocolate Bayou
- Pearland Southeast Plant

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## **STATEMENT OF NET ASSETS**

The Statement of Net Assets for the Authority is presented as one of the required basic financial statements. The Statement of Net Assets includes all of the Authority's assets and liabilities. A major function of the Statement of Net Assets is to measure the ability of the Authority to meet its current and long-term obligations. In the Statement of Net Assets, the difference between total assets and total liabilities is titled as Net Assets.

State and local governments report the net value or "Net Assets" in these major categories:

- Invested in Capital Assets – net of related debt
- Restricted
- Unrestricted

The Governmental Accounting Standards Board (GASB) believes the users of the Authority's financial statements should know whether "Net Assets" were invested in capital assets, are restricted for future use or their future use is unrestricted.

## FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$123,407,162 at the close of the most recent fiscal year.

### As of August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current and noncurrent assets	\$ 53,197,822	\$ 58,035,866
Capital assets	123,795,457	125,601,101
<b>Total Assets</b>	<u>176,993,279</u>	<u>183,636,967</u>
<b>Liabilities</b>		
Current liabilities	\$ 7,813,473	\$ 9,681,905
Noncurrent liabilities	45,772,644	51,170,032
<b>Total Liabilities</b>	<u>53,586,117</u>	<u>60,851,937</u>
<b>Net Assets</b>		
Invested in capital assets - net of related debt	\$ 71,596,314	\$ 68,818,981
Restricted:		
Debt service	3,825,541	4,853,936
Construction	1,836,292	2,556,725
Unrestricted	46,149,015	46,555,388
<b>Total Net Assets</b>	<u>123,407,162</u>	<u>122,785,030</u>

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

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for all the Authority's Divisions. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, and provide sufficient reserves annually from fees and charges since the Authority does not levy or collect any tax revenue. The Statement of Revenues, Expenses and Changes in Net Assets measures how well annual costs are covered by fees and charges.

### For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues:</b>		
Metered water sales	\$ 25,610,055	\$ 27,112,270
Bond payment revenue	6,679,086	7,901,210
Other	3,298,860	4,305,418
<b>Total Operating Revenues</b>	<u>35,588,001</u>	<u>39,318,898</u>
<b>Operating Expenses:</b>		
Personnel services	4,386,157	4,012,351
Supplies and materials	18,045,485	20,146,333
Contracted services	2,700,910	2,563,779
Other Charges	99,300	45,035
Depreciation	8,128,117	6,681,940
<b>Total Operating Expenses</b>	<u>33,359,969</u>	<u>33,449,438</u>
<b>Operating Income</b>	2,228,032	5,869,460
<b>Nonoperating Revenues (Expenses)</b>	<u>(1,605,900)</u>	<u>(3,072,354)</u>
<b>Net Income</b>	622,132	2,797,106
Net assets at beginning of year	<u>122,785,030</u>	<u>119,987,924</u>
<b>Net Assets at End of Year</b>	<u>\$ 123,407,162</u>	<u>\$ 122,785,030</u>

## **CAPITAL ASSETS AND LONG-TERM DEBT**

The Authority's investment in net capital assets as of August 31, 2012 totaled \$123,795,457. This investment in capital assets includes land; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; water systems; wastewater utility systems; and construction in progress.

	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Capital Assets - at cost</b>		
Industrial Division	\$ 14,809,030	\$ 14,026,893
League City Southeast Plant	29,459,632	29,459,350
Water Treatment Plant	30,872,124	29,825,213
Canal Division	24,007,000	20,976,583
1998 A-B South Projects	28,933,640	28,933,640
1998 C Series Texas City Projects	11,998,420	11,998,420
2002 Galveston Projects	13,561,408	13,055,936
Chocolate Bayou	26,771,632	25,897,430
Pearland Southeast Plant	26,809,282	26,809,000
Other Enterprise Funds	16,035,603	15,960,763
Less accumulated depreciation	<u>(99,462,314)</u>	<u>(91,342,127)</u>
<b>Total Capital Assets</b>	<b><u>\$ 123,795,457</u></b>	<b><u>\$ 125,601,101</u></b>

Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

## **LONG-TERM DEBT**

At the end of the current fiscal year, the Authority had long-term debt of \$45,772,644. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

### **As of August 31, 2012 and 2011**

	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Long-Term Debt</b>		
First Lien Water Revenue Bonds- less current maturities	\$ 45,970,000	\$ 51,340,000
Deferred amount of refunding	<u>(197,356)</u>	<u>(230,335)</u>
<b>Total Long-Term Debt</b>	<b><u>\$ 45,772,644</u></b>	<b><u>\$ 51,109,665</u></b>

Additional information on the Authority's long-term debt can be found in Notes 4 to the financial statements.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, 3630 Highway 1765, Texas City, Texas 77591.

## **BASIC FINANCIAL STATEMENTS**

# GULF COAST WATER AUTHORITY

## STATEMENT OF NET ASSETS

August 31, 2012

	<b>Business - Type Activities</b>				
	<b>Industrial Division</b>	<b>League City Southeast Division</b>	<b>Water Treatment Plant</b>	<b>Canal Division</b>	<b>1998 A-B South Projects</b>
<b><u>Assets</u></b>					
<b>Current Assets</b>					
Unrestricted cash and cash equivalents	\$ 13,019,837	\$ 376,163	\$ 9,496,323	\$ 12,313,204	\$ 147,548
Restricted cash and equivalents:					
Debt service		370,922			2,159,590
Construction					
Accounts receivable	393,734	117,947	866,151	901,196	328,841
Interest receivable	7,866	211	4,968	6,847	424
Prepaid expenses	237		1,498	1,576	
<b>Total Current Assets</b>	<b>13,421,674</b>	<b>865,243</b>	<b>10,368,940</b>	<b>13,222,823</b>	<b>2,636,403</b>
<b>Noncurrent Assets</b>					
Debt issuance costs - net		(31,473)			(860,547)
<b>Total Noncurrent Assets</b>		<b>(31,473)</b>			<b>(860,547)</b>
<b>Capital Assets - at cost</b>	<b>14,809,030</b>	<b>29,459,632</b>	<b>30,872,124</b>	<b>24,007,000</b>	<b>28,933,640</b>
Accumulated depreciation	(12,702,921)	(10,615,759)	(28,086,003)	(18,269,614)	(8,940,581)
<b>Total Capital Assets</b>	<b>2,106,109</b>	<b>18,843,873</b>	<b>2,786,121</b>	<b>5,737,386</b>	<b>19,993,059</b>
<b>Total Assets</b>	<b>\$ 15,527,783</b>	<b>\$ 19,677,643</b>	<b>\$ 13,155,061</b>	<b>\$ 18,960,209</b>	<b>\$ 21,768,915</b>
<b><u>Liabilities</u></b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities - unrestricted	\$ 349,936	\$ 240,046	\$ 813,594	\$ 729,885	\$ 3,400
Restricted for Debt service:					
Current portion of bonds		205,000			1,140,000
Accrued interest payable		2,683			33,441
<b>Total Current Liabilities</b>	<b>349,936</b>	<b>447,729</b>	<b>813,594</b>	<b>729,885</b>	<b>1,176,841</b>
<b>Long-Term Debt</b>					
Revenue bonds payable less current maturities		1,850,000			18,440,000
Deferred refunding		(12,211)			(110,795)
<b>Total Long-Term Debt</b>		<b>1,837,789</b>			<b>18,329,205</b>
<b>Total Liabilities</b>	<b>349,936</b>	<b>2,285,518</b>	<b>813,594</b>	<b>729,885</b>	<b>19,506,046</b>
<b><u>Fund Equity</u></b>					
<b>Net Assets</b>					
Invested in capital assets - net of related debt	2,106,109	16,769,611	2,786,121	5,737,386	(336,693)
Restricted for debt service		368,239			2,126,149
Restricted for construction					
Unrestricted	13,071,738	254,275	9,555,346	12,492,938	473,413
<b>Total Net Assets</b>	<b>15,177,847</b>	<b>17,392,125</b>	<b>12,341,467</b>	<b>18,230,324</b>	<b>2,262,869</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 15,527,783</b>	<b>\$ 19,677,643</b>	<b>\$ 13,155,061</b>	<b>\$ 18,960,209</b>	<b>\$ 21,768,915</b>

See Notes to Financial Statements.



**- Enterprise Funds**

<b>1998 C Series Texas City Projects</b>	<b>2002 Galveston Projects</b>	<b>Chocolate Bayou</b>	<b>Pearland Southeast Plant</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
\$	\$	\$ 5,299,681	\$ 1,018	\$ 2,007,292	\$ 42,661,066
589,971	85,510	5,384		726,909	3,938,286
	1,621,492	214,800			1,836,292
100,405	79,985	2,815,086	71,910	291,326	5,966,581
116	1,357	4,517		1,683	27,989
		763	1	32	4,107
<u>690,492</u>	<u>1,788,344</u>	<u>8,340,231</u>	<u>72,929</u>	<u>3,027,242</u>	<u>54,434,321</u>
(383,599)	212,219	52,971		(226,070)	(1,236,499)
<u>(383,599)</u>	<u>212,219</u>	<u>52,971</u>		<u>(226,070)</u>	<u>(1,236,499)</u>
11,998,420	13,561,408	26,771,632	26,809,282	16,035,603	223,257,771
(2,177,110)	(1,588,667)	(8,042,927)	(127,718)	(8,911,014)	(99,462,314)
<u>9,821,310</u>	<u>11,972,741</u>	<u>18,728,705</u>	<u>26,681,564</u>	<u>7,124,589</u>	<u>123,795,457</u>
<u>\$ 10,128,203</u>	<u>\$ 13,973,304</u>	<u>\$ 27,121,907</u>	<u>\$ 26,754,493</u>	<u>\$ 9,925,761</u>	<u>\$ 176,993,279</u>
\$ 1,700	\$ 7,236	\$ 244,633	\$ 77,090	\$ 43,208	\$ 2,510,728
375,000	595,000	2,025,000		850,000	5,190,000
10,258	15,164	42,250		8,949	112,745
<u>386,958</u>	<u>617,400</u>	<u>2,311,883</u>	<u>77,090</u>	<u>902,157</u>	<u>7,813,473</u>
5,015,000	6,795,000	9,075,000		4,795,000	45,970,000
(30,716)	(10,988)			(32,646)	(197,356)
<u>4,984,284</u>	<u>6,784,012</u>	<u>9,075,000</u>		<u>4,762,354</u>	<u>45,772,644</u>
<u>5,371,242</u>	<u>7,401,412</u>	<u>11,386,883</u>	<u>77,090</u>	<u>5,664,511</u>	<u>53,586,117</u>
4,078,427	4,805,948	7,681,676	26,681,564	1,286,165	71,596,314
579,713	70,346	(36,866)		717,960	3,825,541
	1,621,492	214,800			1,836,292
98,821	74,106	7,875,414	(4,161)	2,257,125	46,149,015
<u>4,756,961</u>	<u>6,571,892</u>	<u>15,735,024</u>	<u>26,677,403</u>	<u>4,261,250</u>	<u>123,407,162</u>
<u>\$ 10,128,203</u>	<u>\$ 13,973,304</u>	<u>\$ 27,121,907</u>	<u>\$ 26,754,493</u>	<u>\$ 9,925,761</u>	<u>\$ 176,993,279</u>

# GULF COAST WATER AUTHORITY

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

Year Ended August 31, 2012

	<b>Business - Type Activities</b>				
	<b>Industrial Division</b>	<b>League City Southeast Division</b>	<b>Water Treatment Plant</b>	<b>Canal Division</b>	<b>1998 A-B South Projects</b>
<b>Operating Revenues:</b>					
Metered water sales	\$ 7,011,680	\$ 2,025,399	\$ 8,023,211	\$ 6,539,605	\$
Bond payment revenue		158,535			1,802,114
Other				657,196	
<b>Total Operating Revenues</b>	<u>7,011,680</u>	<u>2,183,934</u>	<u>8,023,211</u>	<u>7,196,801</u>	<u>1,802,114</u>
<b>Operating Expenses:</b>					
Personnel services	353,699	3,894	1,741,407	1,617,165	
Supplies and materials	4,747,200	2,060,614	4,866,013	3,625,575	
Contracted services	103,767	21,082	857,032	1,220,089	
Other charges	51,905	56	1,049	45,574	
Depreciation	83,132	752,855	835,959	786,893	1,371,576
<b>Total Operating Expenses</b>	<u>5,339,703</u>	<u>2,838,501</u>	<u>8,301,460</u>	<u>7,295,296</u>	<u>1,371,576</u>
<b>Operating Income (Loss)</b>	<u>1,671,977</u>	<u>(654,567)</u>	<u>(278,249)</u>	<u>(98,495)</u>	<u>430,538</u>
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	31,984	3,127	23,722	29,799	7,876
Other revenues and (expenses)	45,398	57	760	83,239	141,901
Amortization of debt issuance costs		(10,200)			74,975
Interest expense		(97,096)			(830,942)
Intergovernmental transfers					
<b>Total Nonoperating Revenues (Expenses)</b>	<u>77,382</u>	<u>(104,112)</u>	<u>24,482</u>	<u>113,038</u>	<u>(606,190)</u>
<b>Change in Net Assets</b>	1,749,359	(758,679)	(253,767)	14,543	(175,652)
Net Assets at Beginning of Year	13,428,488	18,150,804	12,595,234	18,215,781	2,438,521
<b>Net Assets at End of Year</b>	<u>\$ 15,177,847</u>	<u>\$ 17,392,125</u>	<u>\$ 12,341,467</u>	<u>\$ 18,230,324</u>	<u>\$ 2,262,869</u>

See Notes to Financial Statements.

**- Enterprise Funds**

<b>1998 C Series Texas City Projects</b>	<b>2002 Galveston Projects</b>	<b>Chocolate Bayou</b>	<b>Pearland Southeast Plant</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
\$	\$	\$ 1,772,208	\$ 184,633	\$ 53,319	\$ 25,610,055
602,431	959,820	2,111,859		1,044,327	6,679,086
		2,641,664			3,298,860
<u>602,431</u>	<u>959,820</u>	<u>6,525,731</u>	<u>184,633</u>	<u>1,097,646</u>	<u>35,588,001</u>
		633,056	4,544	32,392	4,386,157
		2,556,805	188,985	293	18,045,485
		492,461	1,383	5,096	2,700,910
		691	10	15	99,300
<u>504,611</u>	<u>382,247</u>	<u>2,444,449</u>	<u>127,718</u>	<u>838,677</u>	<u>8,128,117</u>
<u>504,611</u>	<u>382,247</u>	<u>6,127,462</u>	<u>322,640</u>	<u>876,473</u>	<u>33,359,969</u>
<u>97,820</u>	<u>577,573</u>	<u>398,269</u>	<u>(138,007)</u>	<u>221,173</u>	<u>2,228,032</u>
2,460	924	14,577	5	11,501	125,975
		108,001	8	105,802	485,166
35,288	(22,321)	(10,594)		29,158	96,306
(261,538)		(177,091)		(248,174)	(1,614,841)
				(698,506)	(698,506)
<u>(223,790)</u>	<u>(21,397)</u>	<u>(65,107)</u>	<u>13</u>	<u>(800,219)</u>	<u>(1,605,900)</u>
(125,970)	556,176	333,162	(137,994)	(579,046)	622,132
<u>4,882,931</u>	<u>6,015,716</u>	<u>15,401,862</u>	<u>26,815,397</u>	<u>4,840,296</u>	<u>122,785,030</u>
<u>\$ 4,756,961</u>	<u>\$ 6,571,892</u>	<u>\$ 15,735,024</u>	<u>\$ 26,677,403</u>	<u>\$ 4,261,250</u>	<u>\$ 123,407,162</u>

# GULF COAST WATER AUTHORITY

## STATEMENT OF CASH FLOWS

Year Ended August 31, 2012

	<b>Business - Type Activities</b>				
	<b>Industrial Division</b>	<b>League City Southeast Division</b>	<b>Water Treatment Plant</b>	<b>Canal Division</b>	<b>1998 A-B South Projects</b>
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 7,227,522	\$ 2,294,159	\$ 8,409,981	\$ 7,514,575	\$ 1,695,381
Cash payments to suppliers for goods and services	(4,955,838)	(2,012,781)	(5,887,544)	(5,804,811)	
Cash paid for employee services	(353,699)	(3,894)	(1,741,407)	(1,617,165)	
Other revenues and (expenses)	45,398	57	760	83,239	141,901
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>1,963,383</u>	<u>277,541</u>	<u>781,790</u>	<u>175,838</u>	<u>1,837,282</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition of facilities and equipment	(782,137)	(282)	(1,046,911)	(3,030,416)	
Principal paid on bonds		(653,555)			(1,120,000)
Interest paid		(103,928)			(800,242)
Intergovernmental transfers					
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(782,137)</u>	<u>(757,765)</u>	<u>(1,046,911)</u>	<u>(3,030,416)</u>	<u>(1,920,242)</u>
<b>Cash Flows from Investing Activities</b>					
Interest earned	32,690	3,257	25,571	31,537	7,709
<b>Net Cash Provided by Investing Activities</b>	<u>32,690</u>	<u>3,257</u>	<u>25,571</u>	<u>31,537</u>	<u>7,709</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,213,936	(476,967)	(239,550)	(2,823,041)	(75,251)
Cash and equivalents at beginning of year	11,805,901	1,224,052	9,735,873	15,136,245	2,382,389
<b>Cash and Equivalents at End of Year</b>	<u>\$ 13,019,837</u>	<u>\$ 747,085</u>	<u>\$ 9,496,323</u>	<u>\$ 12,313,204</u>	<u>\$ 2,307,138</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating Income (Loss)	\$ 1,671,977	\$ (654,567)	\$ (278,249)	\$ (98,495)	\$ 430,538
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenue and expenses	45,398	57	760	83,239	141,901
Depreciation	83,132	752,855	835,959	786,893	1,371,576
(Increase) decrease in receivables	215,842	110,225	386,770	317,774	(110,133)
(Increase) decrease in prepaid expenses		1			
Increase (decrease) in vouchers payable and accrued liabilities	(52,966)	68,970	(163,450)	(913,573)	3,400
<b>Total Adjustments</b>	<u>291,406</u>	<u>932,108</u>	<u>1,060,039</u>	<u>274,333</u>	<u>1,406,744</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 1,963,383</u>	<u>\$ 277,541</u>	<u>\$ 781,790</u>	<u>\$ 175,838</u>	<u>\$ 1,837,282</u>

See Notes to Financial Statements.

**- Enterprise Funds**

<b>1998 C Series Texas City Projects</b>	<b>2002 Galveston Projects</b>	<b>Chocolate Bayou</b>	<b>Pearland Southeast Plant</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
\$ 620,591	\$ 959,938	\$ 7,986,420	\$ 112,723	\$ 837,860	\$ 37,659,150
(356,803)	(240,257)	(3,019,564)	(113,307)	(17,278)	(22,408,183)
		(633,056)	(4,544)	(32,392)	(4,386,157)
		108,001	8	105,802	485,166
<u>263,788</u>	<u>719,681</u>	<u>4,441,801</u>	<u>(5,120)</u>	<u>893,992</u>	<u>11,349,976</u>
	(505,472)	(934,568)	(282)	(82,668)	(6,382,736)
(370,000)	(570,000)	(1,935,000)		(825,000)	(5,473,555)
(246,034)	(1,071)	(180,058)		(250,253)	(1,581,586)
				(698,506)	(698,506)
<u>(616,034)</u>	<u>(1,076,543)</u>	<u>(3,049,626)</u>	<u>(282)</u>	<u>(1,856,427)</u>	<u>(14,136,383)</u>
<u>2,587</u>	<u>1,279</u>	<u>12,526</u>	<u>5</u>	<u>9,818</u>	<u>126,979</u>
<u>2,587</u>	<u>1,279</u>	<u>12,526</u>	<u>5</u>	<u>9,818</u>	<u>126,979</u>
(349,659)	(355,583)	1,404,701	(5,397)	(952,617)	(2,659,428)
<u>939,630</u>	<u>2,062,585</u>	<u>4,115,164</u>	<u>6,415</u>	<u>3,686,818</u>	<u>51,095,072</u>
<u>\$ 589,971</u>	<u>\$ 1,707,002</u>	<u>\$ 5,519,865</u>	<u>\$ 1,018</u>	<u>\$ 2,734,201</u>	<u>\$ 48,435,644</u>
\$ 97,820	\$ 577,573	\$ 398,269	\$ (138,007)	\$ 221,173	\$ 2,228,032
		108,001	8	105,802	485,166
504,611	382,247	2,444,449	127,718	838,677	8,128,117
18,160	118	1,460,689	(71,910)	(259,786)	2,067,749
					1
<u>(356,803)</u>	<u>(240,257)</u>	<u>30,393</u>	<u>77,071</u>	<u>(11,874)</u>	<u>(1,559,089)</u>
<u>165,968</u>	<u>142,108</u>	<u>4,043,532</u>	<u>132,887</u>	<u>672,819</u>	<u>9,121,944</u>
<u>\$ 263,788</u>	<u>\$ 719,681</u>	<u>\$ 4,441,801</u>	<u>\$ (5,120)</u>	<u>\$ 893,992</u>	<u>\$ 11,349,976</u>

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# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Gulf Coast Water Authority (the "Authority"), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

#### **A. Reporting Entity**

The reporting entity refers to the scope of activities, organizations and functions included in the financial statements. The Authority is a separate, self-supporting governmental unit and is administered by a Board of eleven members who are appointed by the Governor of the State of Texas. There are no dependent functions or agencies that meet any of the criteria for inclusion in the reporting entity in accordance with the requirements of the GASB.

#### **B. Business-Type Activities**

The business-type activities and the related accounts of the Authority are organized on the basis of Enterprise Funds, each of which is considered a separate accounting entity. The operations of each Enterprise Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, as appropriate. These Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to customers on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Enterprise Funds maintained by the Authority are described below:

#### **Major Proprietary Funds:**

- Industrial Division
- League City Southeast Plant
- Water Treatment Plant
- Canal Division
- 1998 A-B South Projects
- 1998 C Texas City Projects
- 2002 Galveston Projects
- Chocolate Bayou
- Pearland Southeast Plant

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Non-Major Proprietary Funds:**

Administrative Special Projects  
1991 Kemah Projects  
1987 Galveston Projects  
1998D Series La Marque Projects  
Alta Loma Pump Station  
Alta Loma Wells  
Water Treatment Plant Expansion 2011

### **C. Measurement Focus and Basis of Accounting**

The Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Assets.

The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### **D. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in checking, savings, money market accounts and Public Funds Investment Pools.

### **E. Accounts Receivable**

The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectibility of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2012, no allowance for bad debts was necessary.

### **F. Depreciation**

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The Authority's policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater.



# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

The useful lives by the type of assets are as follows:

<b><u>Asset Class</u></b>	<b><u>Useful Life</u></b>
Office furniture, fixtures and equipment	5 years
Other machinery and equipment	5-10 years
Automobiles and trucks	5-10 years
Buildings	20-50 years
Water systems	30 years
Wastewater utility systems	30 years

### **G. Amortization of Other Assets**

Included within other assets are debt issuance costs. The debt issuance costs, bond premiums and cost of surety bonds are being amortized over the life of the related obligation on the straight-line method.

### **H. Date of Management's Review**

Subsequent events have been evaluated through November 22, 2012, which is the date the financial statements were available to be issued.

### **I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent bond proceeds.

Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets represent the remaining portion of net assets.

# GULF COAST WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

A summary of invested in capital assets – net of related debt as of August 31, 2012 follows:

	<b>Capital Assets - Net of Depreciation</b>	<b>Bonds Payable</b>	<b>Total</b>
Industrial Division	\$ 2,106,109	\$	\$ 2,106,109
League City Southeast Division	18,843,873	(2,074,262)	16,769,611
Water Treatment Plant	2,786,121		2,786,121
Canal Division	5,737,386		5,737,386
1998 A-B South Projects	19,993,059	(20,329,752)	(336,693)
1998 C Series Texas City Projects	9,821,310	(5,742,883)	4,078,427
2002 Galveston Projects	11,972,741	(7,166,793)	4,805,948
Chocolate Bayou	18,728,705	(11,047,029)	7,681,676
Pearland Southeast Plant	26,681,564		26,681,564
Other Enterprise Funds	7,124,589	(5,838,424)	1,286,165
<b>Total</b>	<b>\$ 123,795,457</b>	<b>\$ (52,199,143)</b>	<b>\$ 71,596,314</b>

A summary of net assets restricted for debt service as of August 31, 2012 follows:

	<b>Restricted Cash for Debt Service</b>	<b>Liabilities Payable from Restricted Cash for Debt Service</b>	<b>Total</b>
Industrial Division	\$	\$	\$
League City Southeast Division	370,922	(2,683)	368,239
Water Treatment Plant			
Canal Division			
1998 A-B South Projects	2,159,590	(33,441)	2,126,149
1998 C Series Texas City Projects	589,971	(10,258)	579,713
2002 Galveston Projects	85,510	(15,164)	70,346
Chocolate Bayou	5,384	(42,250)	(36,866)
Pearland Southeast Plant			
Other Enterprise Funds	726,909	(8,949)	717,960
<b>Total</b>	<b>\$ 3,938,286</b>	<b>\$ (112,745)</b>	<b>\$ 3,825,541</b>

# GULF COAST WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

A summary of net assets restricted for construction as of August 31, 2012 follows:

	<b>Restricted Cash for Construction</b>	<b>Bonds Payable</b>	<b>Liabilities Payable from Restricted Cash for Construction</b>	<b>Total</b>
Industrial Division	\$	\$	\$	\$
League City Southeast Division				
Water Treatment Plant				
Canal Division				
1998 A-B South Projects				
1998 C Series Texas City Projects				
2002 Galveston Projects	1,621,492			1,621,492
Chocolate Bayou	214,800			214,800
Pearland Southeast Plant				
Other Enterprise Funds				
<b>Total</b>	<b>\$ 1,836,292</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,836,292</b>

### NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the general-purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with bond provisions.

In accordance with GASB -31, certificates of deposit are reported at cost. Participating interest-earning investment contracts (repurchase agreements) that mature within one year of acquisition date are reported at fair value; those that mature within one year or less at date of acquisition are reported at amortized cost. Debt securities (U.S. Treasury securities, U.S. government agency securities) are reported at fair value, except those maturing in less than one year, which are recorded at amortized cost. Fair value is determined using quoted market prices. Unrealized gains and losses are included as a component of investment income.

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Deposits**

As authorized in bond provisions, deposits of the Gulf Coast Water Authority are in short term certificates of deposit, demand accounts and interest bearing money market accounts. All deposits are secured at balance sheet date by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank. The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1: Deposits and investments, which are insured or collateralized with securities, held by the Authority or by its agent in the Authority's name.

Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3: Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Authority's cash deposits are classified as Category 2. At August 31, 2012, cash and certificates of deposit of \$46,676,862 were secured by collateral with a market value of \$67,187,720.

### **Investments**

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, and common trust funds. Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1: Investments that are insured, registered, or held by the Authority or by its agent in the Authority's name.

Category 2: Investments that are uninsured and unregistered held by the counter party's trust department or agent in the Authority's name.

Category 3: Uninsured and unregistered investments held by the counter party, its trust department, or its agent, but not in the Authority's name.

Investments that are not represented by specific identifiable investment securities such as mutual fund investment pools are not classified as to credit risk.

The Authority's investments at August 31, 2012 was a U.S. Treasury Portfolio Fund with a carrying and market amount of \$1,689,805 and was not categorized.

# GULF COAST WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3 – CAPITAL ASSETS

The following table summarizes the changes in the components of capital assets:

	<u>Balance at Sept. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2012</u>
<b>Business-Type Activities:</b>				
Capital Assets Not Being Depreciated:				
Industrial Division:				
Land	\$ 843,764	\$	\$	\$ 843,764
Construction in progress	65,962	701,014		766,976
League City Southeast Plant:				
Construction in progress	16,605,800		(16,605,800)	
Water Treatment Plant:				
Land	647,759			647,759
Construction in progress	27,069	248,240		275,309
1998 C Series Texas City Projects:				
Construction in progress	358,485		(358,485)	
Canal Division:				
Land	409,908	37,182		447,090
Construction in progress	774,810		(399,208)	375,602
2002 Galveston Projects:				
Construction in progress	3,936,471	505,029		4,441,500
Chocolate Bayou:				
Land		20,975		20,975
Construction in progress	41,098	122,411	(41,098)	122,411
Pearland Southeast Plant:				
Construction in progress	26,809,000		(26,809,000)	
Other Enterprise Funds:				
Construction in progress	606,646	63,521		670,167
Total Capital Assets Not Depreciated	<u>51,126,772</u>	<u>1,698,372</u>	<u>(44,213,591)</u>	<u>8,611,553</u>
Capital Assets Being Depreciated:				
Industrial Division	13,117,167	81,123		13,198,290
League City Southeast Plant	12,853,550	16,606,082		29,459,632
Water Treatment Plant	29,150,385	798,671		29,949,056
Canal Division	19,791,865	3,392,443		23,184,308
1998 A-B South Projects	28,933,640			28,933,640
1998 C Series Texas City Projects	11,639,935	358,485		11,998,420
2002 Galveston Projects	9,119,465	443		9,119,908
Chocolate Bayou	25,856,332	771,914		26,628,246
Pearland Southeast Plant		26,809,282		26,809,282
Other Enterprise Funds	15,354,117	19,291	(7,972)	15,365,436
Total Capital Assets Depreciated	<u>165,816,456</u>	<u>48,837,734</u>	<u>(7,972)</u>	<u>214,646,218</u>
Less Accumulated Depreciation	<u>91,342,127</u>	<u>8,128,117</u>	<u>(7,930)</u>	<u>99,462,314</u>
<b>Business-Type Activities, Net</b>	<u>\$ 125,601,101</u>	<u>\$ 42,407,989</u>	<u>\$ (44,213,633)</u>	<u>\$ 123,795,457</u>

# GULF COAST WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	<u>Balance at Sept. 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2012</u>	<u>Due Within One Year</u>
<b>League City Southeast Division</b>					
Contract Revenue Bonds:					
Series 2011F	\$ 2,250,000	\$	\$ 195,000	\$ 2,055,000	\$ 205,000
<b>Total League City Southeast Division</b>	<u>2,250,000</u>		<u>195,000</u>	<u>2,055,000</u>	<u>205,000</u>
<b>1998 A-B South Projects</b>					
Contract Revenue Bonds:					
Series 2011A	17,330,000		855,000	16,475,000	870,000
Series 2011B	3,370,000		265,000	3,105,000	270,000
<b>Total 1998 A-B South Projects</b>	<u>20,700,000</u>		<u>1,120,000</u>	<u>19,580,000</u>	<u>1,140,000</u>
<b>1998 C Series Texas City Projects</b>					
Contract Revenue Bonds:					
Series 2011C	5,760,000		370,000	5,390,000	375,000
<b>Total 1998 C Series Texas City Projects</b>	<u>5,760,000</u>		<u>370,000</u>	<u>5,390,000</u>	<u>375,000</u>
<b>2002 Galveston Projects</b>					
Contract Revenue Bonds:					
Series 2002	7,960,000		570,000	7,390,000	595,000
<b>Total 2002 Galveston Projects</b>	<u>7,960,000</u>		<u>570,000</u>	<u>7,390,000</u>	<u>595,000</u>
<b>Chocolate Bayou</b>					
Contract Revenue Bonds:					
Series 2006	13,035,000		1,935,000	11,100,000	2,025,000
<b>Total Chocolate Bayou</b>	<u>13,035,000</u>		<u>1,935,000</u>	<u>11,100,000</u>	<u>2,025,000</u>
<b>Other Enterprise Funds</b>					
Contract Revenue Bonds:					
Series 2011D	2,330,000		2,330,000		
Series 2011E	4,320,000		665,000	3,655,000	680,000
Refunding Bonds:					
Series 1998B	470,000		470,000		
Series 2011D		2,140,000	150,000	1,990,000	170,000
<b>Total Other Enterprise Funds</b>	<u>7,120,000</u>	<u>2,140,000</u>	<u>3,615,000</u>	<u>5,645,000</u>	<u>850,000</u>
<b>Total Bonds Payable</b>	<u>\$ 56,825,000</u>	<u>\$ 2,140,000</u>	<u>\$ 7,805,000</u>	<u>\$ 51,160,000</u>	<u>\$ 5,190,000</u>

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

Maturities of bonds payable follow:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 5,190,000	\$ 2,094,884	\$ 7,284,884
2014	5,375,000	1,913,572	7,288,572
2015	5,590,000	1,712,453	7,302,453
2016	5,825,000	1,481,316	7,306,316
2017	7,050,000	1,250,856	8,300,856
2018	3,925,000	1,039,931	4,964,931
2019	4,085,000	872,694	4,957,694
2020	4,290,000	675,294	4,965,294
2021	4,470,000	483,969	4,953,969
2022	5,360,000	265,488	5,625,488
	<u>\$ 51,160,000</u>	<u>\$ 11,790,457</u>	<u>\$ 62,950,457</u>

### **NOTE 5 - COMPENSATED ABSENCES**

Employees are eligible for up to 25 days of fully paid sick benefits each year, but they may not carry unused sick benefits to the following year. Therefore, the Authority has no liability for unused sick leave.

The vacation year is on a calendar year basis. A newly hired employee will not be eligible for, nor accrue vacation until they complete 90 days service. Upon completion, however, vacation credit for said employee shall be retroactive to the hiring date. Upon completion of one (1) year service they will have earned 80 hours vacation at six and two-thirds (6 2/3) hours for each month or fraction of a month that they were employed.

Effective on January 1<sup>st</sup> following the employee's completion of one (1) year of service, employee's vacation will be scheduled on a calendar year (January through December) for the vacation earned at employee's anniversary date during that calendar year. At August 31, 2012, accrued compensated absences are \$165,624.

### **NOTE 6 - EMPLOYEES' RETIREMENT PLAN**

**Plan Description** - Gulf Coast Water Authority provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 575 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more.

Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy** - The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the regular 7.47% contribution rate of the employer is greater than the 7.00% contribution rate payable by the employee members as adopted by the governing body of the employer. This regular contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer to contribute the same amount as the employees. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Annual Pension Cost** – The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2011 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4 percent. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2011 was 20 years.



# GULF COAST WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

**Funded Status and Funding Progress** – As of December 31, 2011, the most recent actuarial valuation date, the plan was 93.97 percent funded. The actuarial accrued liability for benefits was \$13,392,000, and the actuarial value of assets was \$12,583,932, resulting in an unfunded actuarial accrued liability (UAAL) of \$808,068. The covered payroll (annual payroll of active employees covered by the plan) was \$2,731,189, and the ratio of the UAAL to the covered payroll was 29.59 percent.

### Actuarial Valuation Information

Actuarial valuation date	12/31/11	12/31/10	12/31/09
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20	10.8
Asset valuation method	SAF: 10 yr Smoothed value ESF: Fund value	SAF: 10 yr Smoothed value ESF: Fund value	SAF: 10 yr Smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.0%	8.0%	8.0%
Projected salary increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

### **Schedule of Funding Progress for the Retirement Plan for the Employees of Gulf Coast Water Authority**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liab. (AAL) (b)	Unfunded or (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2011	\$ 12,583,932	\$ 13,392,000	\$ 808,068	93.97%	\$ 2,731,189	29.59%
12/31/2010	12,035,647	12,540,257	504,610	95.98%	2,581,145	19.55%
12/31/2009	11,196,862	11,503,050	306,188	97.34%	2,566,897	11.93%

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 7 – CONTINGENT LIABILITY**

In the ordinary course of conducting its operations, the Authority is involved in various legal matters. These matters are in various stages of the process of resolution and the impact, if any, is not currently determinable. The Authority's management does not believe that any unfavorable decisions would have a material impact on the financial statements.

### **NOTE 8 - LONG-TERM CONTRACTS**

#### **Customer Contracts**

The Gulf Coast Water Authority (GCWA) has contracted with its customers to sell and deliver water on demand, and the customers have agreed to buy from the GCWA or to pay for whether taken or not, minimum quantities of water as set forth in the contracts.

#### **Long-Term Contract for Cost Sharing Water Project With City of Houston**

The Gulf Coast Water Authority entered into a long-term cost sharing water project contract with the City of Houston, Texas to jointly finance and operate the Southeast Water Purification Plant (SEWPP) to supply existing and future treated water needs of the City of League City and the City of Pearland, Texas. Terms of the contract provide that the GCWA shall directly reimburse the City of Houston on a periodic basis for the expenses incurred in producing and pumping the water actually delivered to GCWA.

#### **Mainland Project 2011 Expansion Feasibility Study**

In August 2005, the Authority entered into agreements with various participants who (a) are currently customers of the Authority and indicate a desire to obtain additional capacity under amendments to existing water supply contracts or water facilities financing agreements under the terms of which the Authority sells water to such customers or (b) are not currently customers of the Authority but indicate a desire to enter into a water supply or water facilities financing agreement with the Authority by engaging a firm of professional engineers and other consultants to conduct a feasibility study to investigate the feasibility and cost of the Expansion Project of the Water Treatment Plant including (i) the alternatives available for expanding the Plant; (ii) the availability of additional raw water and/or water rights; (iii) necessary amendments to and/or restatements of existing contracts and/or new contracts; (iv) the estimated costs of the Expansion Project; and (v) a plan for financing such expansion. The participants have approved contracts agreeing collectively to payments of \$600,000 - \$750,000 to the Authority as reimbursement for the cost of the feasibility study.

#### **Chocolate Bayou Interim Water Supply Agreements and Water Supply Contracts**

The Cities of Pearland and Galveston, Texas, in return for the right to purchase on a take-or-pay basis Brazos River water, have provided security for the related Series 2006 revenue bonds equal to their pro-rata share of the water purchase rights. Should a City decide to exercise its rights under the interim Water Supply agreement, they will enter

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

into a water supply contract with Gulf Coast Water Authority for the sale of water to that City. The Cities have the right to sell, convey, or assign their rights to purchase raw water under the agreement. During the fiscal year ended August 31, 2009 the City of Pearland sold a portion of its rights to purchase raw water under the Interim Water Supply Agreement to INEOS USA, LLC resulting in a water supply contract between Gulf Coast Water Authority and INEOS USA, LLC. During the fiscal year ended August 31, 2010 the City of Texas City and the City of Galveston sold a portion of their rights to purchase raw water the Interim Water Supply Agreement to INEOS USA. LLC.

### **NOTE 9 - EMPLOYEE 401(K) PLAN TRUST**

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the Trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Supplemental Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Supplemental Plan; any employee would be vested in 100% of the Authority's contributions to the Supplemental Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Supplemental Plan. Employees may contribute to the plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2012 were \$103,001.

# **GULF COAST WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 10 - INSURANCE**

The Authority participates in the Texas Municipal League Intergovernmental Risk Pool, which was formed in 1974 for the purpose of offering a workers' compensation plan for unincorporated associations of political subdivisions of Texas. Pooling proved to be so beneficial to Texas local governments that, also at the Members' request, the Joint Self-Insurance Fund for Liability and property was created in 1982 under the authority of the Interlocal Cooperation Act, Article 4413 (32a). This Fund provides protection for Texas cities and other qualifying local governments for General Liability, Automobile Liability, Public Officials Errors and Omissions Liability, Law Enforcement Liability, Aviation Liability and damage to or destruction of Real and Personal Property. Currently the pool has over 1,670 members who purchase worker's compensation and business risk insurance.

Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

The pool purchases reinsurance from commercial insurance carriers for claims in excess of \$1,000,000. The Authority pays an annual premium to the plan for the administration of claims, purchase of insurance and loss control services. The Authority retains no risk of loss for each claim other than the annual premium and deductibles.

**OTHER SUPPLEMENTARY INFORMATION**

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# GULF COAST WATER AUTHORITY

## SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL (BUDGETARY BASIS)

Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Operating Revenues:</b>				
Metered water sales	\$ 25,490,181	\$ 25,490,181	\$ 25,610,055	\$ 119,874
Bond payment revenue	6,818,730	6,818,730	6,679,086	(139,644)
Other	1,777,601	1,777,601	3,298,860	1,521,259
<b>Total Operating Revenues</b>	<u>34,086,512</u>	<u>34,086,512</u>	<u>35,588,001</u>	<u>1,501,489</u>
<b>Operating Expenses:</b>				
Personnel services	5,490,962	5,490,962	4,386,157	(1,104,805)
Supplies and materials	16,696,027	16,696,027	18,045,485	1,349,458
Contracted services	2,959,959	2,959,959	2,700,910	(259,049)
Other charges	1,683,021	1,683,021	99,300	(1,583,721)
Depreciation	8,767,137	8,767,137	8,128,117	(639,020)
<b>Total Operating Expenses</b>	<u>35,597,106</u>	<u>35,597,106</u>	<u>33,359,969</u>	<u>(2,237,137)</u>
<b>Operating Income (Loss)</b>	<u>(1,510,594)</u>	<u>(1,510,594)</u>	<u>2,228,032</u>	<u>3,738,626</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	114,549	114,549	125,975	11,426
Other revenues and (expenses)	(13,696,856)	(13,696,856)	485,166	14,182,022
Amortization of debt issuance	(525,213)	(525,213)	96,306	621,519
Interest expense	(2,084,829)	(2,084,829)	(1,614,841)	469,988
Intergovernmental transfers			(698,506)	(698,506)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(16,192,349)</u>	<u>(16,192,349)</u>	<u>(1,605,900)</u>	<u>14,586,449</u>
<b>Change in Net Assets</b>	(17,702,943)	(17,702,943)	622,132	18,325,075
Net Assets at Beginning of Year	122,785,030	122,785,030	122,785,030	
<b>Net Assets at End of Year</b>	<u>\$ 105,082,087</u>	<u>\$ 105,082,087</u>	<u>\$ 123,407,162</u>	<u>\$ 18,325,075</u>

# GULF COAST WATER AUTHORITY

## COMBINING STATEMENT OF NET ASSETS-NON-MAJOR ENTERPRISE FUNDS

August 31, 2012

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
<b><u>Assets</u></b>					
<b>Current Assets</b>					
Unrestricted cash and cash equivalents	\$ 1,561,374	\$	\$	\$ 269,846	\$ 4
Restricted cash and equivalents:					
Debt service				503,307	223,602
Construction					
Accounts receivable				250,006	41,320
Interest receivable	1,228			298	43
Prepaid expenses				32	
<b>Total Current Assets</b>	1,562,602			1,023,489	264,969
<b>Noncurrent Assets</b>					
Debt issuance costs - net				(117,026)	(109,044)
<b>Total Noncurrent Assets</b>				(117,026)	(109,044)
<b>Capital Assets - at cost</b>	643,040	1,065,272	1,858,142	9,070,905	2,822,787
Accumulated depreciation	(643,040)	(1,065,272)	(1,858,142)	(4,564,107)	(780,453)
<b>Total Capital Assets</b>				4,506,798	2,042,334
<b>Total Assets</b>	\$ 1,562,602	\$	\$	\$ 5,413,261	\$ 2,198,259
<b><u>Liabilities</u></b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities - unrestricted	\$ 35,065	\$	\$	\$ 6,443	\$ 1,700
Restricted for Debt service:					
Current portion of bonds				680,000	170,000
Accrued interest payable				5,626	3,323
<b>Total Current Liabilities</b>	35,065			692,069	175,023
<b>Long-Term Debt</b>					
Revenue bonds payable less current maturities				2,975,000	1,820,000
Deferred refunding				(18,867)	(13,779)
<b>Total Long-Term Debt</b>				2,956,133	1,806,221
<b>Total Liabilities</b>	35,065			3,648,202	1,981,244
<b><u>Fund Equity</u></b>					
<b>Net Assets</b>					
Invested in capital assets - net of related debt				753,639	(42,931)
Restricted for debt service				497,681	220,279
Restricted for construction					
Unrestricted	1,527,537			513,739	39,667
<b>Total Net Assets</b>	1,527,537			1,765,059	217,015
<b>Total Liabilities and Fund Equity</b>	\$ 1,562,602	\$	\$	\$ 5,413,261	\$ 2,198,259



- Enterprise Funds

Alta Loma Pump Station	Alta Loma Wells	Water Treatment Plant Expansion 2011	Total
\$	\$	\$ 176,068	\$ 2,007,292
			726,909
			291,326
		114	1,683
			32
		176,182	3,027,242
			(226,070)
			(226,070)
		575,457	16,035,603
			(8,911,014)
		575,457	7,124,589
\$	\$	\$ 751,639	\$ 9,925,761
			43,208
			850,000
			8,949
			902,157
			4,795,000
			(32,646)
			4,762,354
			5,664,511
		575,457	1,286,165
			717,960
		176,182	2,257,125
		751,639	4,261,250
\$	\$	\$ 751,639	\$ 9,925,761

# GULF COAST WATER AUTHORITY

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS NON-MAJOR ENTERPRISE FUNDS

Year Ended August 31, 2012

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
<b>Operating Revenues:</b>					
Metered water sales	\$	\$	\$	\$ 53,319	\$
Bond payment revenue				796,404	247,923
Other					
<b>Total Operating Revenues</b>				<u>849,723</u>	<u>247,923</u>
<b>Operating Expenses:</b>					
Personnel services				32,392	
Supplies and materials				293	
Contracted services				5,096	
Other charges				15	
Depreciation				704,905	133,772
<b>Total Operating Expenses</b>				<u>742,701</u>	<u>133,772</u>
<b>Operating Income (Loss)</b>				<u>107,022</u>	<u>114,151</u>
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	3,951			2,978	3,860
Other revenues and (expenses)				179,217	(73,407)
Amortization of debt issuance costs				19,632	9,526
Interest expense				(152,721)	(95,453)
Intergovernmental transfers					
<b>Total Nonoperating Revenues (Expenses)</b>	<u>3,951</u>			<u>49,106</u>	<u>(155,474)</u>
<b>Change in Net Assets</b>	3,951			156,128	(41,323)
Net Assets at Beginning of Year	1,523,586			1,608,931	258,338
<b>Net Assets at End of Year</b>	<u>\$ 1,527,537</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,765,059</u>	<u>\$ 217,015</u>

**- Enterprise Funds**

<b>Alta Loma Pump Station</b>	<b>Alta Loma Wells</b>	<b>Water Treatment Plant Expansion 2011</b>	<b>Total</b>
\$	\$	\$	\$ 53,319
			1,044,327
			1,097,646
			32,392
			293
			5,096
			15
			838,677
			876,473
			221,173
25	229	458	11,501
(8)			105,802
			29,158
			(248,174)
(64,515)	(633,991)		(698,506)
(64,498)	(633,762)	458	(800,219)
(64,498)	(633,762)	458	(579,046)
64,498	633,762	751,181	4,840,296
\$	\$	\$	\$ 4,261,250

# GULF COAST WATER AUTHORITY

## COMBINING STATEMENT OF CASH FLOWS-NON-MAJOR ENTERPRISE FUNDS

### Year Ended August 31, 2012

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ (22)	\$	\$	\$ 607,880	\$ 230,002
Cash payments to suppliers for goods and services	12,006			(30,984)	1,700
Cash paid for employee services				(32,392)	
Other revenues and (expenses)				179,217	(73,407)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>11,984</u>			<u>723,721</u>	<u>158,295</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition of facilities and equipment				(83,921)	(4,850)
Principal paid on bonds				(665,000)	(160,000)
Interest paid				(152,167)	(93,928)
Intergovernmental transfers					
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>				<u>(901,088)</u>	<u>(258,778)</u>
<b>Cash Flows from Investing Activities</b>					
Interest earned	3,707			3,049	3,849
<b>Net Cash Provided by Investing Activities</b>	<u>3,707</u>			<u>3,049</u>	<u>3,849</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	15,691			(174,318)	(96,634)
Cash and equivalents at beginning of year	<u>1,545,683</u>			<u>947,471</u>	<u>320,240</u>
<b>Cash and Equivalents at End of Year</b>	<u>\$ 1,561,374</u>	<u>\$</u>	<u>\$</u>	<u>\$ 773,153</u>	<u>\$ 223,606</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating Income (Loss)	\$	\$	\$	\$ 107,022	\$ 114,151
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenue and expenses				179,217	(73,407)
Depreciation				704,905	133,772
(Increase) decrease in receivables	(22)			(241,843)	(17,921)
(Increase) decrease in prepaid expenses					
Increase (decrease) in vouchers payable and accrued liabilities	12,006			(25,580)	1,700
<b>Total Adjustments</b>	<u>11,984</u>			<u>616,699</u>	<u>44,144</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 11,984</u>	<u>\$</u>	<u>\$</u>	<u>\$ 723,721</u>	<u>\$ 158,295</u>

**- Enterprise Funds**

<b>Alta Loma Pump Station</b>	<b>Alta Loma Wells</b>	<b>Water Treatment Plant Expansion 2011</b>	<b>Total</b>
\$	\$	\$	\$ 837,860
			(17,278)
			(32,392)
			105,810
			894,000
			(88,771)
			(825,000)
			(246,095)
(64,515)	(633,991)		(698,506)
(64,515)	(633,991)		(1,858,372)
61	634	455	11,755
61	634	455	11,755
(64,454)	(633,357)	455	(952,617)
64,454	633,357	175,613	3,686,818
\$	\$	\$ 176,068	\$ 2,734,201
\$	\$	\$	\$ 221,173
			105,810
			838,677
			(259,786)
			(11,874)
			672,827
\$	\$	\$	\$ 894,000

# **GULF COAST WATER AUTHORITY**

## **PRINCIPAL OFFICIALS**

**August 31, 2012**

### **Directors**

R.C. Williams, President

Eric Wilson, Vice-President

Sue Edrozo, Secretary/Treasurer

James McWhorter, Assistant Secretary/Treasurer

James Cesarini, Director

Russell C. Jones, Director

Bill Eisen, Director

William Pedersen, Director

Ray Holbrook, Director

### **Staff**

Bob M. Webb, Business Administrator/Investment Officer

Ivan Langford, General Manager

David Sauer, Assistant General Manager